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Department of Transportation

Transformation Management Team
Final Report

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Laying the Foundation for a Successful Transformation



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Laying the Foundation for a Successful Transformation

North Carolina Department of Transportation

McKinsey & Company is pleased to have served the North Carolina Department of Transportation (NCDOT) in its effort to lay the foundation for transforming how it delivers transportation services to North Carolinians in the 21st century. We've worked closely with NCDOT as a strategic advisor over several months to help diagnose the situation, identify priorities for transformation, and build capabilities.

This report is written as a recap of the diagnostic and transformation effort. As a backdrop, the report begins with a brief discussion of the project objective and the project approach. It then discusses the diagnostic findings that created the fact base upon which the transformation program was built; the five transformation initiatives, describing plans, progress, and next steps for each; and overall next steps. Appendix A provides additional detail on the diagnostic, and Appendix B provides additional detail on the transformation initiatives.

Considering the complexity of the NCDOT organization, it is important to note that the report must be considered in its entirety, including the two appendices. This material, while thorough, does not represent the totality of our transformation capacity building or contribution. It also reflects efforts while McKinsey was present. It does not reflect the ongoing evolution and progression of NCDOT's transformation efforts planned for the next 12 to 18 months.

We hope that what follows provides helpful input to an important and exciting transformation effort that could well be a landmark in NCDOT's history and could serve as a model for government agencies within and outside North Carolina.

PROJECT OBJECTIVE

NCDOT's purpose is to provide the citizens of North Carolina with a safe, reliable transportation network and to do so in a responsive, cost-effective manner. NCDOT is one of the largest and most complex state DOTs. It manages more

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lane-miles than any state other than Texas and oversees a complex and growing transportation network that includes roads, ferries, rail, aviation, public transport, bike paths, and pedestrian walkways.

The Department, like many other state transportation agencies, faces challenges on a number of fronts. Several challenges are matters of fundamental economics. Demand for transportation is increasing during a time of rising costs and flattening revenue. North Carolina's population is expected to grow by approximately 50 percent over the next 25 years, and it is becoming significantly more expensive to meet constituent transportation-related needs. Raw material costs, for example, have increased by over 40 percent in the last 2 years. Meanwhile, federal dollars are not likely to be a source of much help. Federal funding has been relatively flat over the last several years, and the Federal Highway Trust Fund program is projected to run out of funding by 2009.

NCDOT also faces a number of internal challenges. By its own admission, the organization has remained largely stagnant with respect to building capacity and capability; has a limited ability to prioritize and fund projects; has a mixed project performance record (notably the recent high-profile I-40 issues, balanced with successful emergency responses and everyday STIP delivery); offers a less-than-attractive employee value proposition, which makes it difficult to attract and retain talented people, especially when compared to private sector opportunities; and struggles to get a balanced performance message to its constituents. In more general terms, NCDOT has not been keeping up with the best organizations in the public and private sector, which are increasing their focus on efficiency and strategy to achieve operational excellence.

In January 2007, in recognition of the Department's challenges, NCDOT's leaders embarked on a comprehensive transformation effort, with a vision of a new DOT that would be more strategic, accountable, efficient, and effective in its use of resources, focused on outcomes-based performance metrics, and ultimately, better able to provide the transportation network needed by North Carolinians in the 21st century. As part of this effort, NCDOT developed and began implementing a new strategy designed to take NCDOT solidly into the new century. The potential benefits of a comprehensive transformation are many:

- ¶ It can create a transportation infrastructure that makes North Carolina one of the most attractive states in the Southeast for citizens and businesses.
- ¶ It can establish NCDOT as a national model of efficient and effective government by prioritizing projects, programs, and services based on strategic mission and goals and by shortening project delivery time.

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Shortened project delivery time can lead to significant cost savings, particularly in a time of high construction supply inflation.

- ¶ It can unlock the potential of thousands of NCDOT employees to perform to higher standards with more accountability, coordination, and transparency.

Last spring, to ensure the transformation and the new strategy's success, and to learn from proven practices in the public and private sectors, NCDOT leaders asked the Governor's office, members of the North Carolina General Assembly, various constituent groups, and their own leadership team for their opinions on how to diagnose NCDOT performance and then develop, based on the diagnostic, a model for transforming the performance of the organization. Based on these discussions and a competitive RFP process, NCDOT retained McKinsey to serve as an independent advisor on the transformation.

PROJECT APPROACH

NCDOT agreed to conduct an in-depth diagnostic built around obtaining candid employee and stakeholder input in a comprehensive and confidential manner. That diagnostic also included a review of best practices from other public sector and private sector entities and an assessment of NCDOT's organizational values.

The diagnostic identified both strengths that NCDOT should build on and weaknesses in the current organization that need to be addressed. The diagnostic results were discussed with most NCDOT Board members, several state legislators, NCDOT leadership, division engineers, and several other managers from the Department.

A Transformation Management Team (TMT) was launched to focus on specific transformation initiatives. Designed to address the challenges and opportunities identified in the diagnostic, the transformation initiatives would represent the Department's priorities over the next 12 to 18 months.

NCDOT recognized that the long-term success of any transformation effort must be rooted in the organization itself and not be dependent on ongoing outside help and asked McKinsey to help build relevant NCDOT and TMT capabilities.

Accordingly, throughout the project, the effort focused on building the Department's ability to make and sustain the proposed changes. Considerable time and attention was dedicated to coaching NCDOT's transformation leaders, individually and collectively, providing them with examples from the best public and private sector organizations and adding to existing skills in leadership,

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strategic thinking, and organizational effectiveness. The capability-building efforts also included having leading experts in fields such as strategic planning, talent management, performance metrics, organizational design, and communication share their insights with NCDOT leaders and managers. Finally, the work to develop the transformation initiatives themselves has been an active and conscious collaboration between McKinsey's project leaders and their NCDOT counterparts.

FINDINGS FROM THE DIAGNOSTIC

The diagnostic provided in-depth quantitative and qualitative input from an unprecedented number of internal and external stakeholders. More than 70 percent of NCDOT employees (8,977 total responses) completed a quantitative survey. Managers' perspectives on strategic and organizational priorities were captured via interviews with 60 senior leaders across the organization, including the Board of Transportation, and conducting four diagnostic workshops with managers from DMV, Preconstruction and Central Highway Operations, and the Division Engineers. Fifteen deep structure interviews, probing "root causes" of employee perceptions, highlighted the perspectives of staff from all levels of the organization. Finally, members of the North Carolina General Assembly, the Governor's office, MPOs, business groups, and other state agencies were interviewed to understand concerns and priorities among NCDOT's external stakeholders. To encourage candor and openness, all surveys and interviews were conducted in a confidential, not-for-attribution manner.

The diagnostic also included a thorough review of current NCDOT processes and policies, including strategic planning, funding, project planning, design and delivery, operations and maintenance, personnel management, and communications. NCDOT's current practices in these areas were compared to best-practice examples from the private and public sector, particularly in the areas of organizational alignment, vision and goal setting, strategic planning, performance management, and talent management. A Specialist Team, composed of 17 emerging leaders from across NCDOT, contributed to this review, providing insights and supporting analyses about critical processes and issues.

Finally, the diagnostic included an explicit review of NCDOT's organizational values – both what it emphasizes today and what it seeks to emphasize in the future.

The diagnostic work painted a picture of both opportunity and challenge.

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A strong starting point for transformation

With its current leadership team prepared and willing to make real change, improved financial stability, the support of employees with both technical talent and pride in service, and the foundation of solid self-reported organizational values, NCDOT is positioning itself to embark on significant transformation efforts.

- 1. Senior leadership commitment.** The diagnostic found that NCDOT's senior leaders have demonstrated significant willingness to take a proactive approach to addressing the Department's challenges.
- 2. Stable near-term cash flow.** NCDOT's Cash Management Initiative has helped bring spending in line with funding, reducing a \$440 million shortfall in FY 2005 to \$2 million in FY 2006.
- 3. Requisite technical skills.** The diagnostic found that engineers at NCDOT have a strong technical skill base, both through academic training and tenure with the Department.
- 4. Employees committed to serve.** The diagnostic revealed dedicated employees at all levels of the organization. Many NCDOT employees are driven by a desire to serve the state of North Carolina.
- 5. Solid values foundation going forward.** According to NCDOT employees, the ten most common values in today's organization are public focus, safety focus, budget focus, being of service to others, supporting diversity, environmentally responsible, job security, bureaucracy, rule-oriented, and slow-moving. Many of these current values are consistent with high performing public sector organizations, e.g., supporting diversity, while others are not, e.g., slow-moving.

Going forward, the Department is aiming to be in line with best practices. NCDOT has identified, and the employee surveys, interviews, and focus groups confirmed, 10 values that are indicative of what the organization should espouse going forward: accountability, trust, well-organized, courage to do what's right, fulfilling work, respect for people, efficiency, job security, safety focus, and environmentally responsible. These values are consistent with many successful public and private sector entities.

Significant opportunities to improve service to North Carolinians

The strategic and organizational diagnostic also revealed opportunities for improvement that deal with setting clear direction and rebuilding or refining key

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organizational elements. In order to become a high-performing, 21st century Department of Transportation, it was crucial that NCDOT address the following needs identified in the diagnostic:

1. Setting clear direction. The diagnostic found that NCDOT could increase its alignment, focus, and effectiveness by setting a clearer direction. Neither NCDOT's vision and goals nor the Department's portfolio of projects and services were as consistent and coherent as people believed they needed to be.

a. Vision and goals. NCDOT had numerous and occasionally inconsistent vision and goal statements. It is important that NCDOT clarify its vision and link it more explicitly to a broader, long-term vision for North Carolina, such as the Governor's "One North Carolina." Such linkages would imply directly addressing issues such as infrastructure improvement, economic development, efficient governance, and environmental sustainability.

NCDOT's goals needed to be linked to a revised vision and be "cascaded" throughout organization. Managers should be given specific and measurable expectations for their respective roles in achieving organizational goals, and those expectations should be linked to managers' performance reviews.

b. Portfolio of projects, programs, and services. The diagnostic found that NCDOT's portfolio was not explicitly linked to or coordinated with NCDOT's goals. In part the result of that fact, the portfolio reflected a lack of focus, manifest in NCDOT's broad scope of activities. Internal and external stakeholders described NCDOT as trying to be "all things to all people."

NCDOT could improve its productivity through a more targeted and strategic portfolio, focused on those projects, programs, and services that are most essential to achieving its goals and long-term vision. Case examples from other state departments of transportation show explicit links between projects, programs, and services and organizational goals.

The diagnostic found NCDOT's portfolio to be near-term oriented and familiar, focused on meeting the most immediate demands rather than on long-term planning. The portfolio made limited use of innovative funding approaches, relying instead on existing sources of funds generated from the State Highway Fund, Highway Trust Fund, and federal appropriations.

2. Rebuilding or refining key organizational elements. The diagnostic pointed to critical improvements needed in NCDOT's core processes, structure and systems, and employee mindsets.

- a. Core processes.** Four core processes were falling short in some important ways. Specifically, the diagnostic found the following:
- **Strategic planning processes** were ad-hoc and reactive, which had contributed to inconsistent and ineffective project prioritization. In addition, the process often involved too many decision-makers and could be more open. The STIP selection methodology emphasized local priorities and external stakeholder inputs at the expense of systematically addressing long-term statewide needs. The diagnostic found that NCDOT could benefit from adopting a regular process that prioritizes projects in a transparent manner at set intervals.
 - **Funding processes** were not flexible enough to enable NCDOT to align its financial resources against strategic needs. NCDOT is currently taking steps to expand its set of funding options, but more can and should be done, including more aggressively pursuing public-private partnerships and other regimes already in use by other states.
 - **Project design and delivery processes** had been slowed by a lack of prioritization, accountability, and coordination.
 - **Operational processes** could benefit from organization-wide metrics-based management. NCDOT has made early steps to increase accountability, including the Managed Maintenance System and initiatives at the DMV. Using these kinds of metrics across the organization, with linkages to talent reviews, could improve overall operational effectiveness.
- b. Structure and systems.** Many of the challenges in the core business processes are the result of shortcomings in NCDOT's organizational structure and systems. Specifically, the diagnostic found:
- **The organizational structure** "silos" elements of some key processes, e.g., project delivery, and lacks units to support others, e.g., intermodal, statewide, strategic planning.
 - **Talent systems** have been failing to sufficiently recruit and retain critical talent, drive employee performance, and develop top managers.

- **Internal and external communication systems** have not been sufficiently proactive and may not have the budget resources needed to be effective.
- c. **Employee mindsets.** Employees are frequently risk averse and reactive, and many have a “siloed” mentality.

As noted earlier, Appendix A provides additional detail on the diagnostic.

THE TRANSFORMATION INITIATIVES – PLANS, PROGRESS, AND NEXT STEPS

This section describes plans, progress, and next steps for the five NCDOT transformation initiatives:

1. Align strategic direction with a new mission statement and goals
2. Streamline project design and delivery
3. Design a more productive organization
4. Increase accountability for and visibility of performance
5. Improve talent management.

As noted earlier, Appendix B provides additional detail on the initiatives.

1 – Align strategic direction with a new mission statement and goals

NCDOT has developed a new mission statement and goals and has tied them to a Department-wide dashboard of performance metrics and targets. The Department has also undertaken two major efforts to align strategic direction and decisions with the new mission and goals. The first is to link projects, programs, and services to goals; the second is to diversify funding sources and processes. Finally, the Department has designed and is beginning to implement a strategic planning process and function. These accomplishments are the initial steps in the four efforts that make up the first NCDOT transformation initiative, to align strategic direction with a new mission statement and goals.

a. Create a new mission statement and goals and communicate them throughout the organization. A clearly articulated mission statement and corresponding goals are the initial building blocks of any successful organization

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and of any transformation effort. Once articulated, the mission and goals should be cascaded throughout the enterprise.

A clear statement of mission and goals provides important context for decision-making, from determining which projects to pursue, to deciding how to design an organization's structure, to determining how to measure the success of a project or the performance of an individual business unit. Culturally, a clear statement of mission and goals is the glue that holds an organization together – it can attract the right talent to an organization, and it can inspire long-term commitment.

As noted earlier, the diagnostic surfaced concerns about the consistency and coherence of NCDOT's vision and goals. This lack of clear direction often meant that employees did not have a broad sense of the ends toward which they were working and managers lacked a set of Department-wide objectives that could strategically guide their unit's work.

To remedy these problems and to set a stronger, more holistic direction for the Department, the TMT first drafted a new mission statement and goals and communicated them with internal and external stakeholders.

The team was guided by four principles as it shaped the mission statement and goals: craft a mission statement with enduring purpose, not one contingent on existing conditions; craft goals that were not only closely linked to the new mission but also whose ultimate success could be gauged by quantifiable metrics; craft a mission statement and goals that would be broad enough to apply to every part of NCDOT, from the Division of Highways to DMV to ferries, and to both "line" employees and "support" employees; and craft language that was concise, clear, and that could be easily communicated to all stakeholders, within NCDOT and outside the Department.

In June and July, with input from the Executive Committee and the Board of Transportation, the TMT developed and gained agreement on the following new mission statement: "Connecting people and places in North Carolina—safely and efficiently, with accountability and environmental sensitivity."

The TMT also developed and gained agreement on five related goals:

- ¶ Make our transportation network safer
- ¶ Make our transportation network move people and goods more efficiently
- ¶ Make our infrastructure last longer
- ¶ Make our organization a place that works well

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- ¶ Make our organization a great place to work.

In July, NCDOT communicated the new mission statement and goals to all employees via e-mail and paper memos. Feedback from employees and stakeholders has been extremely positive. The TMT has also created a graphic to capture the mission and goals and posted it prominently in the Department.

Going forward, key success factors with respect to creating and communicating the new mission statement and goals include the following.

- ¶ Ensure widespread posting of the mission and goals. This is especially important in an organization with 14,000 employees; 14 divisions; multiple smaller district offices, maintenance yards, DMV locations, ferry locations; and central Raleigh offices.
- ¶ Use a range of other vehicles for communicating the mission and goals, primarily “road shows” and “town halls.” This could be an important complement to the e-mails and memos that have already been distributed. Members of NCDOT’s leadership should consistently and forcefully communicate the Department’s mission and goals to employees and external stakeholders. NCDOT should look at building proactive and strategic communication initiatives around its mission and goals.
- ¶ Embed the mission and goals in NCDOT’s culture. This can be done, for example, by:
 - Opening every meeting with a discussion of how the meeting’s objective ties back to the mission and goals, a regular practice in some well-run organizations.
 - Ensuring that managers across the organization use the mission and goals in measuring their respective units’ performance and that their performance is linked to successful accomplishment of the Department-wide goals in addition to their personal ones.

b. Link projects, programs, and services to goals. A strong statement of mission and goals, when properly cascaded throughout an organization, give an organization strong strategic direction. Creating a process for prioritizing NCDOT’s projects, programs, and services based on the Department’s new mission and goals was one of the first things TMT members did to begin this critical cascading. This effort also helps address the issues raised during the diagnostic about weak linkages to NCDOT’s goals and lack of focus in the current portfolio of projects, programs, and services.

Specifically, in July, the TMT began building a quantitative model to objectively compare projects, programs, and services against one another. This model, which is still in development, uses technical criteria, qualitative criteria, and a small number of discretionary points to “score” projects, programs, and services based on system-wide needs.

- ¶ Technical criteria reflect NCDOT’s three external-facing goals: make the transportation network safer, make the transportation network move people and goods more efficiently, and make the transportation network last longer. Examples of criteria on each of these goals include crash severity rates, to gauge highway safety; congestion points, to gauge efficient movement of people and goods; and pavement conditions, to gauge the transportation network’s durability.
- ¶ Qualitative criteria include corridor continuity, environmental stewardship, and geographic equity.
- ¶ Discretionary points are allotted for a limited degree of input from stakeholders, including the Board of Transportation. These discretionary points would never trump the other criteria.

To help it develop a long-term prioritization process, NCDOT invited 50 leaders from across the Department to participate in a Strategic Prioritization Process Summit in September. Participants at the Summit discussed specific criteria that should be used in the long-term prioritization process. They also offered feedback on a list of approximately 50 projects, programs, and services the TMT had identified as high priorities for the Department and on the methodology used to develop those lists.

Going forward, key success factors in linking projects, programs, and services to goals include the following.

- ¶ Create a Strategic Planning Office with responsibility for prioritizing projects and investments and making trade-offs with a view of the entire state’s needs.
- ¶ Expand the prioritization model to better account for programs and services. Although the early version of the model enables NCDOT to compare projects against one another, it does not fully incorporate programs and services.
- ¶ Fully incorporate input from the Strategic Prioritization Process Summit into the model.

- ¶ Reduce the model's complexity. If the model requires too much data, NCDOT may not have the management and data collection resources needed to prepare for prioritization. If the method for analyzing the data is too complex, stakeholders may not understand prioritization decisions enough to provide useful input and support.
- ¶ Test the model, once it is complete, with external stakeholders, including Board of Transportation members, MPOs, and RPOs. One possibility would be to build on the format of the September Summit held with internal stakeholders and hold a follow-up Summit with external stakeholders in Spring 2008.
- ¶ Ensure that strategic and nominal prioritization translates into organizational and cultural prioritization. This would benefit from clear, detailed communication throughout the organization and high-profile reinforcement from the Secretary and other senior management about the importance of prioritization. The result of such communication should mean, in a practical example, that all professional staff in Preconstruction, Operations, and external agencies like DENR can be presented with simultaneous requests to work on two projects and know which project is higher priority and how to respond to the person/entity requesting the lower priority project.

c. Diversify funding sources and processes. In the face of the increasing economic pressure brought on by growing demand for NCDOT services in a time of rising costs and flattening revenue, achieving the Department's mission and goals requires new thinking about funding on NCDOT's part. It is well-established that NCDOT faces a funding shortfall over the next three decades, and it should consider diversifying both funding sources and processes to close the gap.

The TMT has identified and sized a broad set of funding sources NCDOT might consider. Going forward, key success factors in diversifying funding sources and processes include the following.

- ¶ Partner with the General Assembly to request new funding sources for the state's transportation network. NCDOT is in the process of launching a series of pilots aimed at streamlining project delivery (described in a subsequent section of this report). Successful outcomes – faster implementation, at lower cost, and with higher quality – could prove to the General Assembly that NCDOT is committed to change and could help the Department make a stronger case for more funding.

- ¶ Increase the flexibility of NCDOT's funding to better align resources with goals. NCDOT has already proposed legislation to add more flexibility to the equity formula and has quantified the potential impact of directing maintenance funds to Strategic Highway Corridors. It should also review any internal funding restrictions to ensure that it has full flexibility to allocate externally unrestricted funding in line with its mission and goals.
- ¶ Tie new funding to priority investments on the statewide network and measure NCDOT performance against its delivery goals. Put simply, NCDOT should be accountable for delivering specific results against new funding.

d. Create a strategic planning process and function. Strategic planning is vital for public sector organizations. It is the process by which public bodies refine the near- and long-term impact they seek to have on their constituents and determine how they can achieve this impact most effectively within a given time frame.

As determined in the diagnostic, NCDOT's strategic planning is essentially an ad-hoc and reactive process that often involves too many decision-makers and lacks transparency.

In a best-practice strategic planning process, an initial meeting or group of meetings sets criteria for project selection; several months later, these criteria are provided to managers. Throughout the year, interim check-ins are held to ensure that business unit plans match strategic priorities. Finally, corporate and board reviews are held to validate the strategic planning process.

To address the issues identified in the diagnostic and emulate the strategic planning best practices, the TMT has taken a number of steps to create a strategic planning process and function. The TMT has designed a comprehensive 1-year, 2-year, and 8-year strategic planning process, with the intent of enabling NCDOT to turn its strategic direction into concrete financial, operating, and talent plans.

The TMT has made significant progress in establishing the Department's strategic planning function. TMT members have reviewed proven strategic planning processes and the outputs of those processes at other DOTs and other private sector and public sector agencies. They have also held input meetings with the Executive Committee and Board of Transportation members. With best practices and stakeholder input in hand, the TMT created a strategic planning calendar and aligned that calendar with the human resources planning calendar and the performance metrics quarterly business review calendar.

The TMT has also integrated new performance metrics into the Department's strategic decision-making processes, to ensure that NCDOT makes data-driven decisions about its future direction. TMT members have also recorded input from internal stakeholders at the Prioritization Summit about criteria for long-term prioritization of the Department's projects, programs, and services.

Finally, the TMT has created strategic planning manuals for unit heads and other line managers who will be responsible for participating in the strategic planning process.

NCDOT is preparing to establish a Strategic Planning Office to institutionalize the strategic planning process and the work the TMT has done to establish the strategic planning function. The TMT has written a job description for the new director of that office and has approval for posting.

Going forward, key success factors with respect to NCDOT strategic planning include the following.

- ¶ Clarify the specific functional distinctions between the Strategic Planning Office and the Program Development/TIP Programming Unit.
- ¶ Staff the Strategic Planning Office with highly competent people – people who can play a strategic, not an administrative, role in the Department's direction-setting.
- ¶ Set a budget for the Strategic Planning Office that enables it to offer compensation competitive with similar public sector and private sector roles and give the director of the office a reporting line either to the Secretary of Transportation or to one of the Deputy Secretaries.
- ¶ Create communication and training materials to prepare NCDOT managers for their respective roles.

2 – Streamline project design and delivery

This initiative takes aim at the diagnostic finding that NCDOT project design and delivery suffers in part from a lack of project prioritization.

To remedy this problem, NCDOT has developed criteria and a set of process models to guide prioritization, with an eye toward streamlining project design and delivery.

The new process models are being tested through several pilots, which aim to streamline design and delivery of TIP and bridge projects designated as high-priority at the Prioritization Summit.

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Teams working on the pilots have identified several ideas for accelerated project delivery. New delivery processes that may be piloted on TIP projects include: creating formal teams to oversee project delivery, with a single team lead; appointing a tri-party lead for end-to-end project delivery, including one person from planning, one from design, and one from operations; and instituting PEF turn-key delivery. These pilots are set to begin in early November.

A new initiative has been launched to redesign the bridge program through a number of innovations, including instituting a tiered design approach, creating standardized designs for bridges on the subregional tier, and others.

Particularly critical to managing the cost of capital-intensive projects is the reduction of delays and cost overruns. Improvements in time to deliver projects can lead to cost savings, particularly in times of high construction cost inflation. In both private and public sector organizations, pilot programs are a common approach for testing and validating solutions such as process design, reorganization, and/or outsourcing. Best-practice pilots require clear and measurable objectives, specific milestones, and designated control groups to baseline relative success. At the conclusion of a pilot run, the organization should have a quantitative basis for decisions about which changes to processes it should adopt. NCDOT pilots should reflect all these lessons.

Going forward, key success factors for streamlining project design and delivery include the following.

- ¶ Ensure that pilot performance – the right schedule, cost, and quality mix – be a step-change from business as usual, not an incremental improvement. Formal tracking mechanisms are needed to measure progress against this aspiration.
- ¶ Ensure that pilot successes are widely communicated. This is critical for external stakeholder support and internal stakeholder momentum. Successful pilots should:
 - Demonstrate what will happen when important projects are designated as Department priorities
 - Show NCDOT’s ability to operate at emergency-response performance levels on a daily basis and enable the Department to make a stronger case for additional legislative support.

3 – Design a more productive organization

In any organization, vertical silos can reduce information-sharing, dissemination of best practices, and collaboration on important, organization-wide initiatives. In addition to missed opportunities for shared insights, economies of scale, and single-point accountability, silos also make it difficult to allocate resources efficiently. The result can be overstaffing in some areas and understaffing in others.

As noted earlier, the diagnostic showed that NCDOT's current organizational structure silos elements of some key processes, including the project delivery process. Because employees tend to focus on meeting unit-specific goals, as opposed to organization-wide goals, coordination among business units in the project delivery process is insufficient. The lack of common processes for prioritization, accountability, and coordination also contributes to project delays that lead to inefficient use of resources.

There are several examples that illustrate this trend. Within the Division of Highways, there could be wider coordination among the preconstruction, field operations, and asset management branches. Across NCDOT, there could be stronger links across units that play a critical role in project delivery – for example, between the Chief Information Officer and the Division of Highways and between the Division of Highways and other modes. These silos prevent the organization from operating its transportation network as one system.

To overcome these challenges, the TMT is analyzing NCDOT's organizational structure to ensure that it maximizes collaboration, accountability, alignment of activities with mission and goals, and efficiency. To date, the TMT has participated in multiple workshops to consider opportunities to increase organizational effectiveness. Guided by McKinsey experts, and informed by our reference set of best practices, the TMT examined alternative organizational models that would increase coordination among business units, increase coordination across geographies in the project delivery process, and instill better, more efficient decision-making processes across the Department.

The TMT has also launched a participative, bottom-up analysis of several units at NCDOT to see how their end products and activities align with their individual missions, in an effort to increase unit-to-unit effectiveness. Business cases have been written for a number of new, high-level coordinating roles that could be created within the organization.

The Strategic Planning Office discussed earlier should be designated to play a role in addressing productivity.

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Going forward, key success factors in designing a more productive organization may include the following.

- ¶ Create a Chief Operating Officer position (not a political appointee) and recruit an experienced executive who has successfully run complex organizations.
- ¶ Create critical new roles with maximum consideration of their most effective level in the organization, placement/reporting lines in the organization, and compensation levels. For example, NCDOT might consider creating a strategic Human Resources role to lead workforce and leadership planning, career track management, employee value proposition management and other talent management initiatives.
- ¶ Move “boxes and lines” on an organizational chart *only* if there is a strong case to do so. Structural changes should be timed so that they do not reduce the momentum of the rest of the transformation initiatives.
- ¶ Communicate efficiency and productivity analysis as carefully as possible and in close coordination with other transformation communication. By maximizing the “grassroots” or self-generated nature of improvement opportunities, change should be rooted in each employee and business unit’s existing desire and commitment to do good work for the people of the state.
- ¶ Consider developing alternative models to the current structural relationship between NCDOT and other North Carolina public transportation providers.

4 – Increase accountability for and visibility of performance

Successful organizations emphasize accountability for and visibility of performance so that all employees are working effectively toward corporate goals. Each person knows what he or she is responsible for and can use key performance indicators as a tool to prioritize his or her daily activities. Clear metrics also help develop employees, identifying areas of strength and needed improvement, so that supervisors can work as partners with employees to maximize their contribution to the overall mission. This not only leads to improved performance across the organization, but also to increased satisfaction for individuals, who feel rewarded and encouraged in their work.

As the diagnostic pointed out, NCDOT operations would benefit from organization-wide metrics-based management. Although some NCDOT units have introduced metrics – as noted earlier, the Division of Highways maintenance

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unit and the Division of Motor Vehicles – their successes have not spread throughout the organization.

Learning from industry best practices, and following the examples of leading organizations, NCDOT has developed a suite of initiatives to increase accountability for and visibility of performance. A system of metrics was designed and introduced that includes an executive performance dashboard that cascades into metrics for business units and individuals. Performance metrics were also designed for more than 40 independent units, including the Division of Highways, the Division of Motor Vehicles, the Division of Transit (including ferries, rail, buses, and aviation), and support functions such as IT, finance, and human resources. These metrics can be used as part of the first quarter 2008 performance review and may help drive the creation of individual and business unit action plans.

NCDOT is also beginning to track individual and business unit metrics, translate that information into top-level metrics for the organization, and make that performance data visible to the public in the form of a Department-wide Performance Dashboard. This dashboard, now available on the Department's website, helps make NCDOT's ongoing performance improvements visible to the citizens of North Carolina, creating an additional layer of accountability.

As a new culture of accountability and performance visibility becomes embedded in NCDOT, it will be important to continue to actively set and manage to targets for metrics, rather than to allow metrics to become another bureaucratic, time-consuming process.

Going forward, key success factors with respect to increasing accountability for and visibility of performance could include the following.

- ¶ Demonstrate senior management commitment to constructive, intensive dialogue during quarterly business reviews.
- ¶ Communicate metrics widely and identify the individuals and/or business units accountable for them. This increases accountability and has been shown to create friendly competition and drive performance in public agencies that are unable to attach financial rewards to performance.
- ¶ Prepare for disagreement over metrics that people feel they do not completely control. The use of shared “upside-only” incentives for hard-to-attribute metrics can drive performance and teamwork on a metric that could otherwise be divisive.

- ¶ Develop an internal communication philosophy and approach that constantly reinforces mission, goals, and values and positions DOT leadership for appropriate modeling opportunities.
- ¶ Create a Marketing group with solid line authority to the Secretary, recruit someone with marketing expertise to lead the group, and charge the group with leveraging NCDOT's wide presence to collect information and input from external and internal groups and to conduct marketing to those groups regarding NCDOT projects, programs, services and initiatives.

5 – Improve talent management

Because, as the diagnostic showed, NCDOT's talent systems are failing to recruit and retain critical talent, drive employee performance, and retain top managers, the Department's transformation effort is giving explicit attention to improving talent management.

Talent management involves making prioritized choices about where and how to invest in human capital. It is not a different approach to HR; rather, it is a long-term plan of action, designed to achieve particular business objectives, that works hand-in-hand with traditional HR services. Talent management ensures that the right people, with the right skills, are in the right positions to do their best work – and ultimately, to help fulfill their organization's mission and goals.

In an effort to rethink talent management across all levels of the Department and then leverage those efforts with other state agencies, NCDOT has launched an “HR innovations” partnership with the Office of State Personnel.

Drawing on best practices in talent management at large public sector and private sector organizations, NCDOT has developed, and continues to refine, a comprehensive program for improving its talent management.

This program includes a new performance management system that evaluates employees against objective performance metrics and the new department values noted earlier; works with employees to plan their career and development goals; and ensures performance consequences. The Department has also begun to provide increased autonomy for employees as they work toward its mission and goals – again in the context of performance management, comprehensive performance metrics, and an overall accountability culture. The result should be unlocked employee potential, enabling and empowering people to provide excellent, innovative, and cost-effective solutions for the people of North Carolina.

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The TMT has also designed a new leadership planning process that identifies emerging leadership needs and gaps; reviews employees' leadership competencies to assess their potential to fill gaps; and then helps fill gaps by preparing employees to apply for newly opened leadership opportunities.

Finally, the TMT has developed a slate of specific talent management initiatives designed to significantly improve NCDOT's ability to ensure that the right people are in place to carry out the Department's mission:

- ¶ A streamlined hiring approval process, to conform to best practices; this includes removing layers of approval – matched with manager HR budget accountability – as well as moving the Department to the State Personnel Act's policy on salary increases for promotions and salaries for new hires
- ¶ Alternate work schedules to increase employee flexibility – while still requiring that performance objectives be met
- ¶ Reinstated mentoring programs, building on existing models to encourage and reinvigorate employee development and retention
- ¶ An improved training culture, including a less onerous approval process for training expenses – provided that strict accountability for overall training spending is maintained
- ¶ Career banding, in line with legislative approval, to bring NCDOT's existing salary structures more in line with the marketplace, helping reduce the number of employees lost to the private sector
- ¶ Reinstatement of the Professional Engineer certification bonus, as a temporary means of bringing a portion of engineering staff salaries closer to market levels.

Most of these particular initiatives have received initial approval and are being finalized for implementation in the next few months – almost all of them with appropriate partnership between existing groups within the DOT and/or with other state government entities, such as the Office of State Personnel.

Going forward, key success factors for improved talent management could include the following.

- ¶ Devote senior management time to communicating and demonstrating that the new performance management system is a tool for development and performance rather than a nominal administrative activity; ensure that persistent underperformers are terminated; and continue to

recommend legislation that would allow performance-based pay, while exploring nonmonetary ways to reward strong performers.

- ¶ Align resources to ensure that appropriate strategic discussions of talent take place with regularity and at the right level.
- ¶ Begin to build a more innovative, proactive, and collaborative employee culture, reflected in individual mindsets. Members of the TMT and the NCDOT Leadership have received training on the “influence model,” a proven approach for building desired mindsets and behaviors. Consistent with that model’s fundamental premises, NCDOT leaders must engage in role modeling and reinforce transformation initiatives. They should also refrain from enacting policies that contradict the transformation’s cultural themes.
- ¶ Develop an internal communication philosophy and approach that constantly reinforces mission, goals, and values and positions DOT leadership for appropriate role modeling opportunities.

OVERALL NEXT STEPS

In addition to staffing and supporting a full-time dedicated Transformation Management Team, the Department’s leaders are training members of that team in transformation-related organizational improvement tools and practices, engaging NCDOT executive leadership and nearly 30 senior managers in intensive capacity-building workshops and best practice presentations, and actively and continuously providing updates to and gathering input from NCDOT employees and external stakeholders.

Specific agenda items for all these parties should include the initiative-specific next steps noted in the key success factors discussions in the preceding section. Their efforts should also reflect four broader guidelines for success in a transformation effort of this breadth and complexity.

- ¶ Treat the next 12 months with a sense of urgency far beyond business-as-usual, with the transformation as one of the highest priorities for the organization. This is an opportunity for NCDOT’s leadership, employees, and external stakeholders to leave a long-lasting legacy for the organization and the state. In particular, there should be zero tolerance for delays due to politics, individual agendas, or bureaucratic inertia.

- ¶ Put new processes through at least one cycle, put all organizational changes into place, and introduce critical legislation by September 2008. This should help ensure that the transformation transcends the change in administration. The Department needs to begin transition planning as soon as possible.
- ¶ Ensure that transformation initiatives have long-term organizational owners. The TMT is critical, but changes will ultimately need to be owned by the rest of the organization. The talent management team's involvement of HR department staff as full members of its initiative teams is a good example of best-practice ownership transfer.
- ¶ Ensure that internal and external communication of the transformation is as proactive as possible. The organization has begun to change and adopt proven organizational practices, and it is important to communicate this positive change as much as possible and as proactively as possible to employees and the public.

Finally, it is important to note that NCDOT cannot successfully continue its transformation journey on its own. While the Department bears significant responsibility and should be held accountable for transforming its organization, success in developing a reliable and cost-effective transportation network for North Carolina will require close collaboration with and support from the Governor's office, the General Assembly, the NC Board of Transportation, and other external stakeholders. The issues are as complex as they are critical – and they demand that kind of collaboration.

Appendix A: Materials from the Diagnostic Phase

North Carolina Department of Transportation

OBJECTIVE

McKinsey & Company began its work with the North Carolina Department of Transportation with a diagnostic phase, to gain a deep understanding of NCDOT's current situation and how well the organization performs.

The diagnostic sought to evaluate not only the strengths and weaknesses of NCDOT's organizational structure, but elements of the Department besides structure—NCDOT's systems and core processes, and the behaviors and mindsets of Department employees. The diagnostic provided a common language and fact base for the design and delivery phase of our work. It was critical to gaining an understanding of which improvements would be necessary and feasible to undertake at NCDOT.

METHODOLOGY AND APPROACH

There are 4 primary tools McKinsey used during this diagnostic phase, including surveys, workshops, structured interviews, and data analysis. Specifically, the diagnostic entailed:

- **Quantitative Survey** of the Organizational Performance Profile completed by **8,977 employees**, more than 70% of the NCDOT
- **60 Senior Leader interviews** across the organization, including the Board, to understand strategic priorities and organizational strengths and challenges
- **9 focus groups** with transportation workers, supervisors and technicians, DMV employees, VERTs, and administrative staff (112 total participants)

- **2 Steering Committee meetings** and **4 Specialist Team meetings**
- **4 diagnostic Key Leaders workshops** with managers from DMV, DOH, Preconstruction and Central Ops, and Division Engineers (93 total participants)
- **Over 10 consultations** with McKinsey’s global strategy and organizational practice experts
- **15 “deep structured interviews”** with employees to probe in-depth ‘root causes’ of employee perceptions of NCDOT
- **Over 20 interviews** with individuals in the Governor’s Office, Senators and Representatives in the General Assembly, MPOs, and business to understand concerns and priorities of external stakeholders.

The exhibits in Appendix A, immediately following this page, include detailed results of the diagnostic phase. All materials in Appendix A were produced wholly by McKinsey.

CONTENTS

Number	Document Title
A-1	Strategic and Organizational Assessment—Phase 1 Diagnostic
A-2	Preliminary Organizational Diagnostics Results for North Carolina Department of Transportation
A-3	Strategy Workshop with Steering Committee
A-4	NCDOT Communication of Diagnostic Results

CONFIDENTIAL

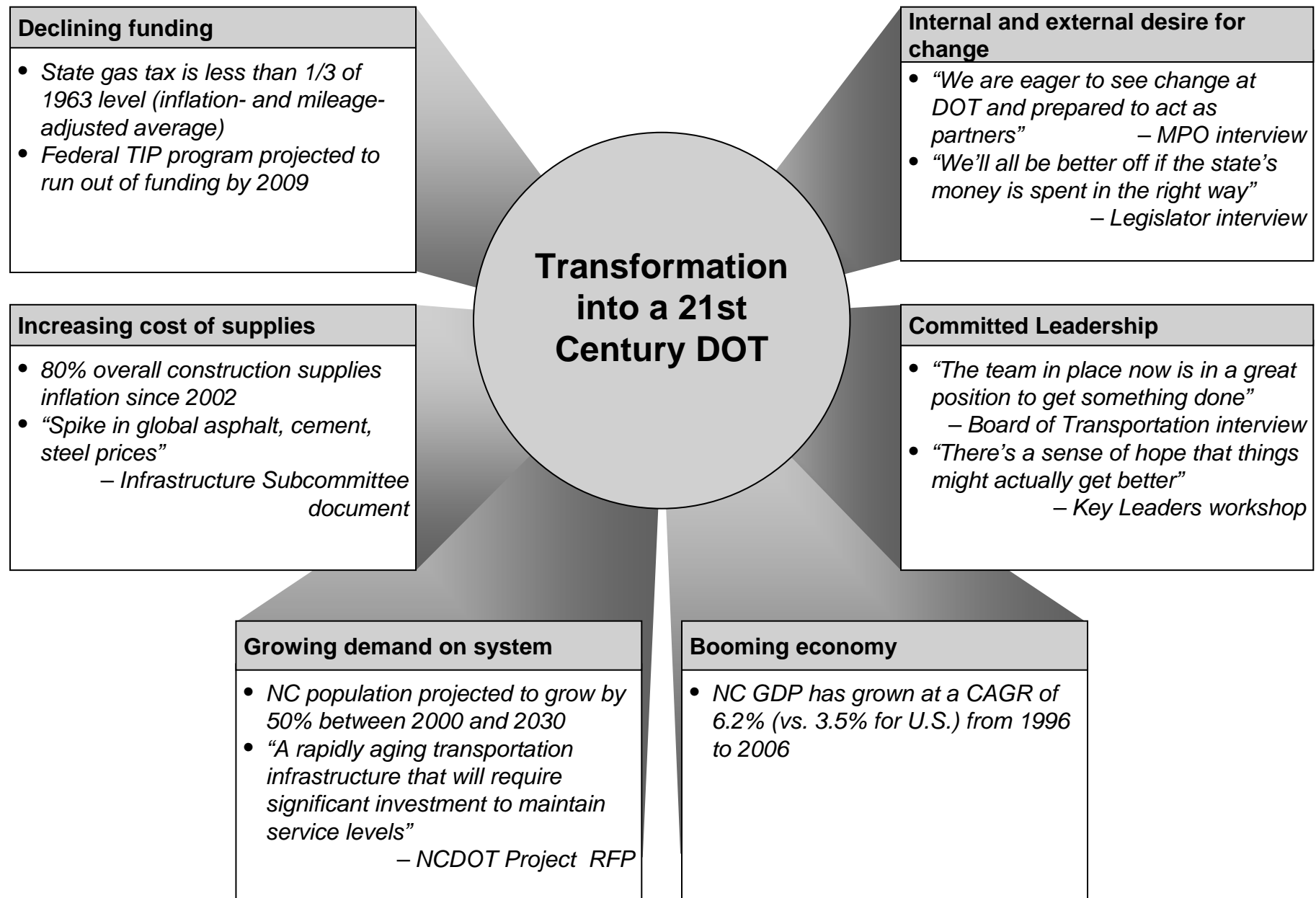
Strategic and Organizational Assessment – Phase 1 Diagnostic



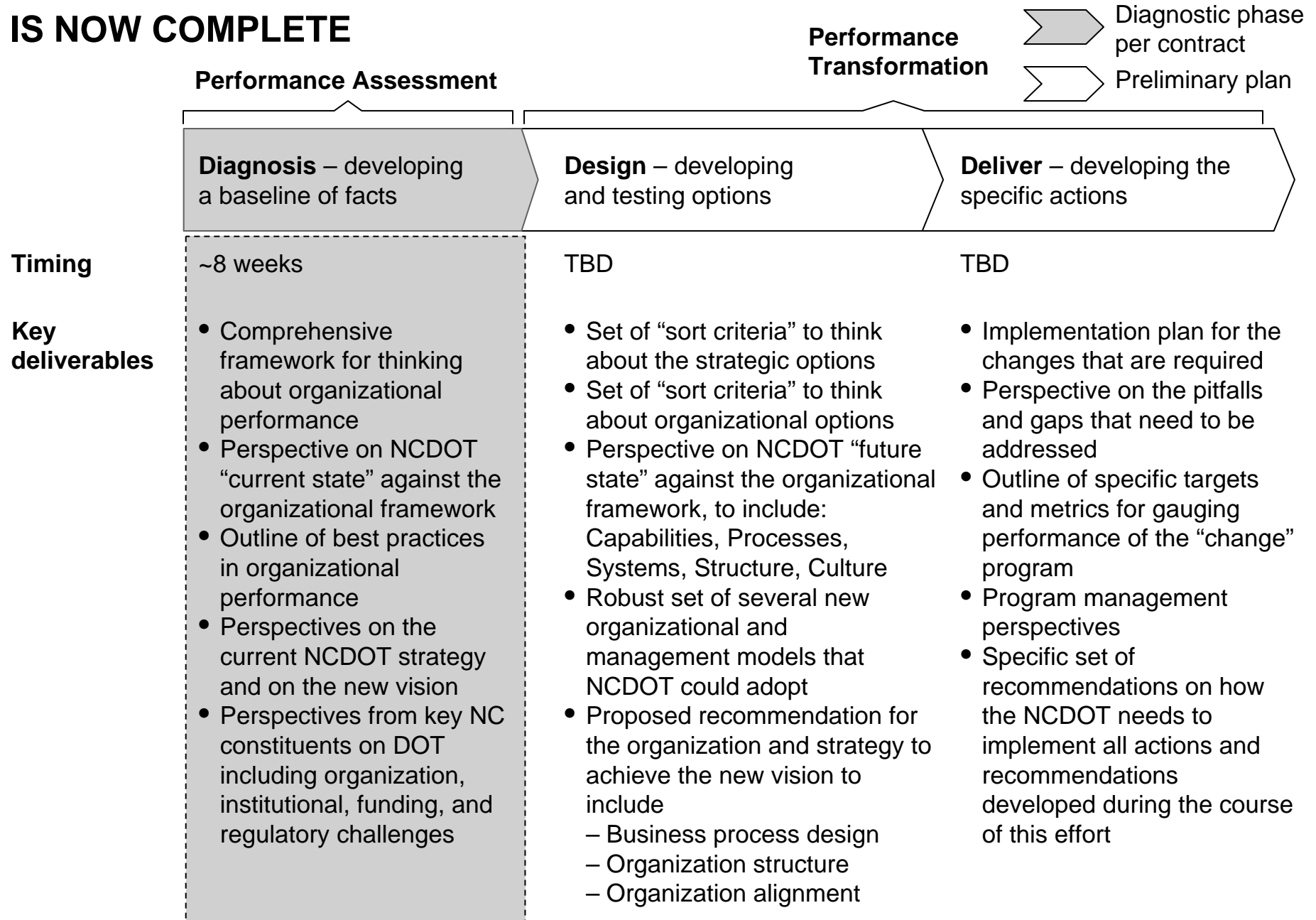
June, 2007

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TIMING FOR PROACTIVE TRANSFORMATION IS IDEAL



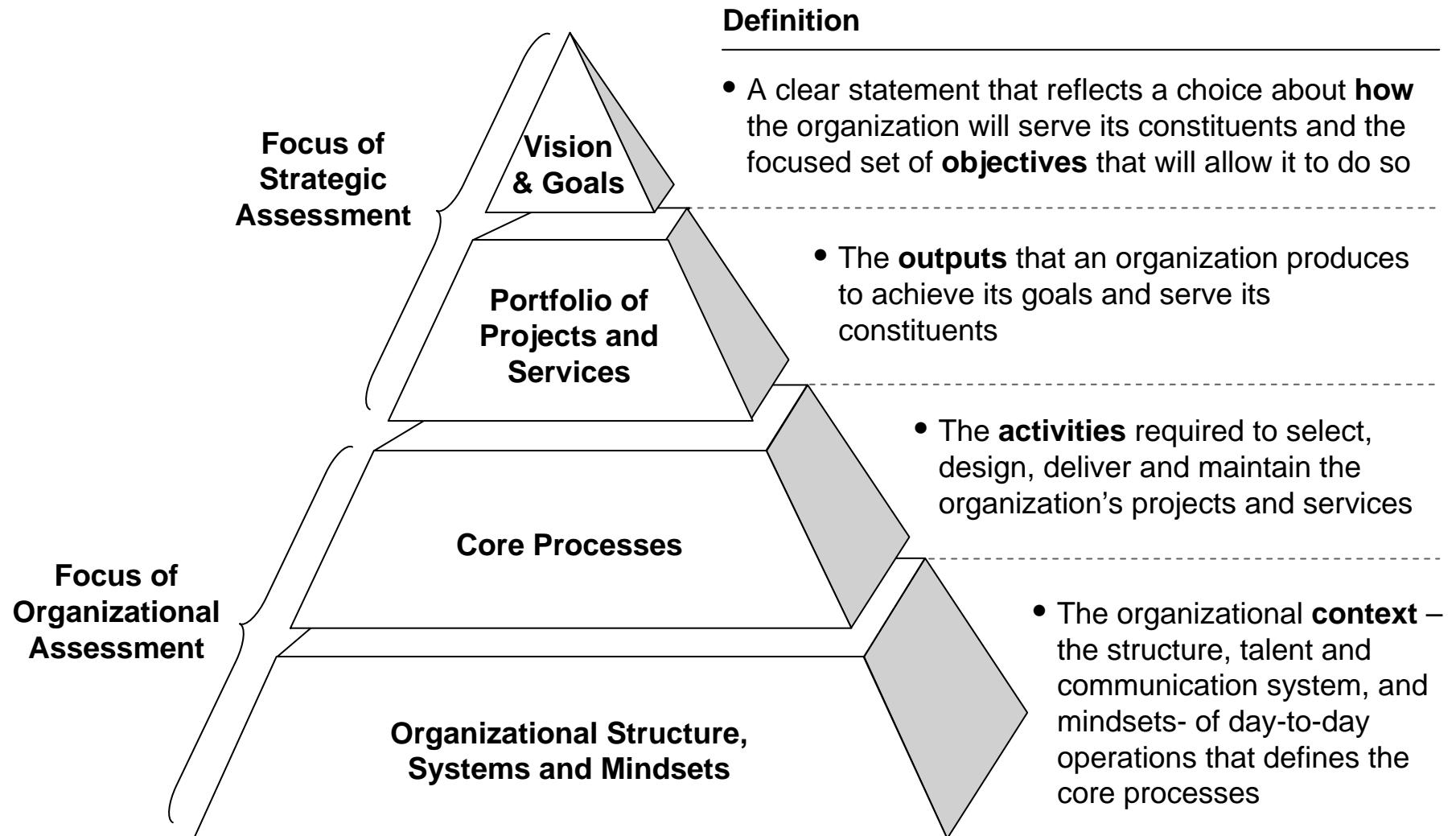
PHASE ONE OF OUR THREE PHASE TRANSFORMATION EFFORT IS NOW COMPLETE



PHASE ONE COMPREHENSIVELY ENGAGED NCDOT EMPLOYEES, STAKEHOLDERS AND EXPERTS . . .

- **Quantitative Survey** of the Organizational Performance Profile completed by **8,977 employees**, more than 70% of the NCDOT
- **60 Senior Leader interviews** across the organization, including the Board, to understand strategic priorities and organizational strengths and challenges
- **9 focus groups** with transportation workers, supervisors and technicians, DMV employees, VERTs, and administrative staff (112 total participants)
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- **15 “deep structured interviews”** with employees from all levels of the organization to probe in-depth ‘root causes’ of employee perceptions
- **>20 conversations** with individuals in the Governor's Office, General Assembly, MPOs, and business to understand concerns and priorities of **external stakeholders**

... AND SYNTHESIZED THE FINDINGS IN AN ASSESSMENT OF OVERALL STRATEGY AND ORGANIZATION



OUR FINDINGS FROM THIS WORK

A strong starting point for transformation

1. Near-term budget stabilized
2. External stakeholders supportive of change
3. Key leaders committed to change
4. Technical skills necessary to deliver
5. Employees proud to serve, with a “can do attitude”

Significant opportunities to improve service to North Carolinians

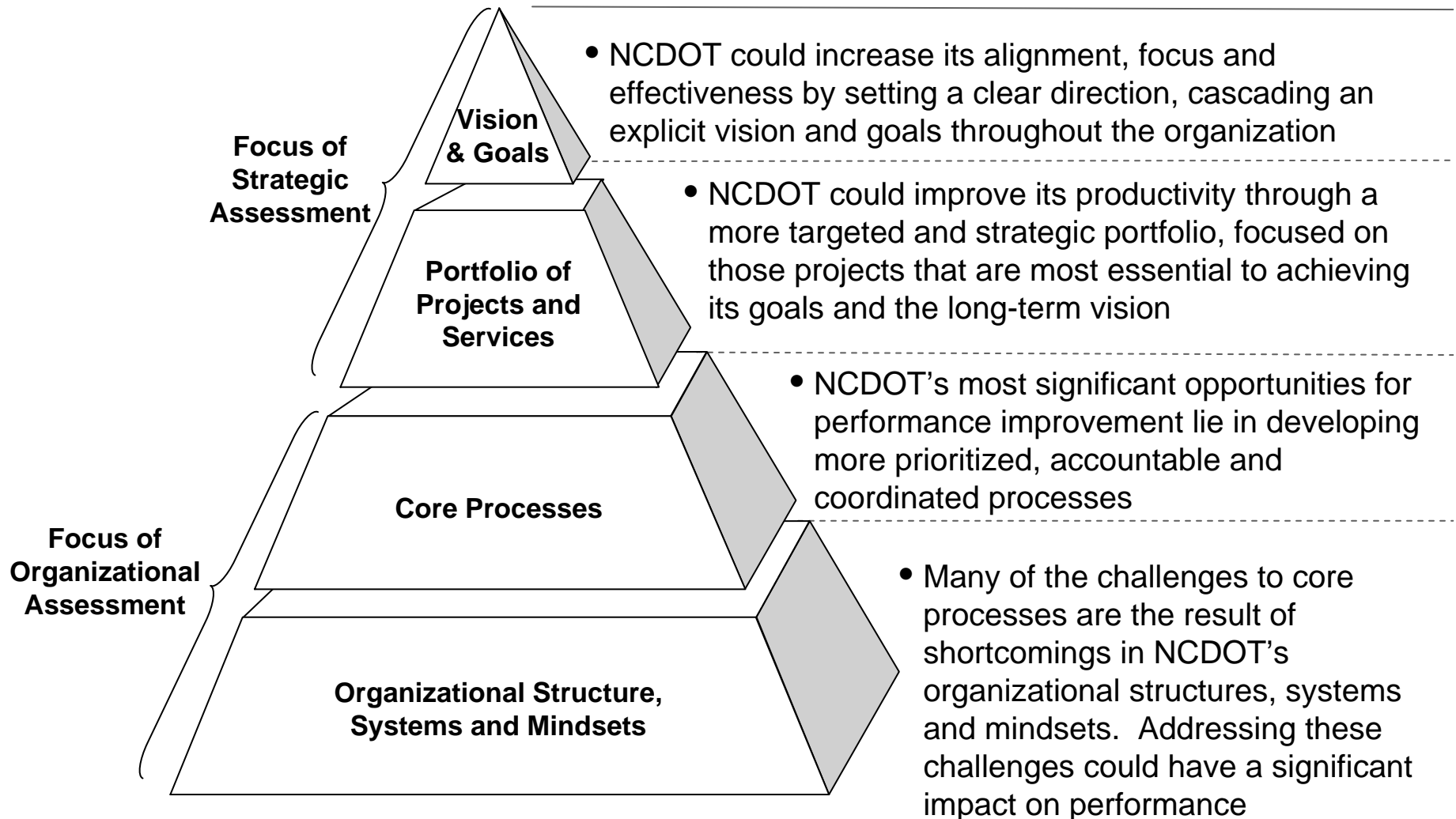
1. Set clear direction by cascading an explicit vision and specific goals throughout the organization
2. Development of a more targeted and strategic portfolio of projects focused on those most critical to achieving the strategic vision and goals
3. Introduction of greater prioritization, accountability and coordination in core processes
4. Alignment of structure, systems and mindsets to achieve vision

A STRONG STARTING POINT FOR TRANSFORMATION

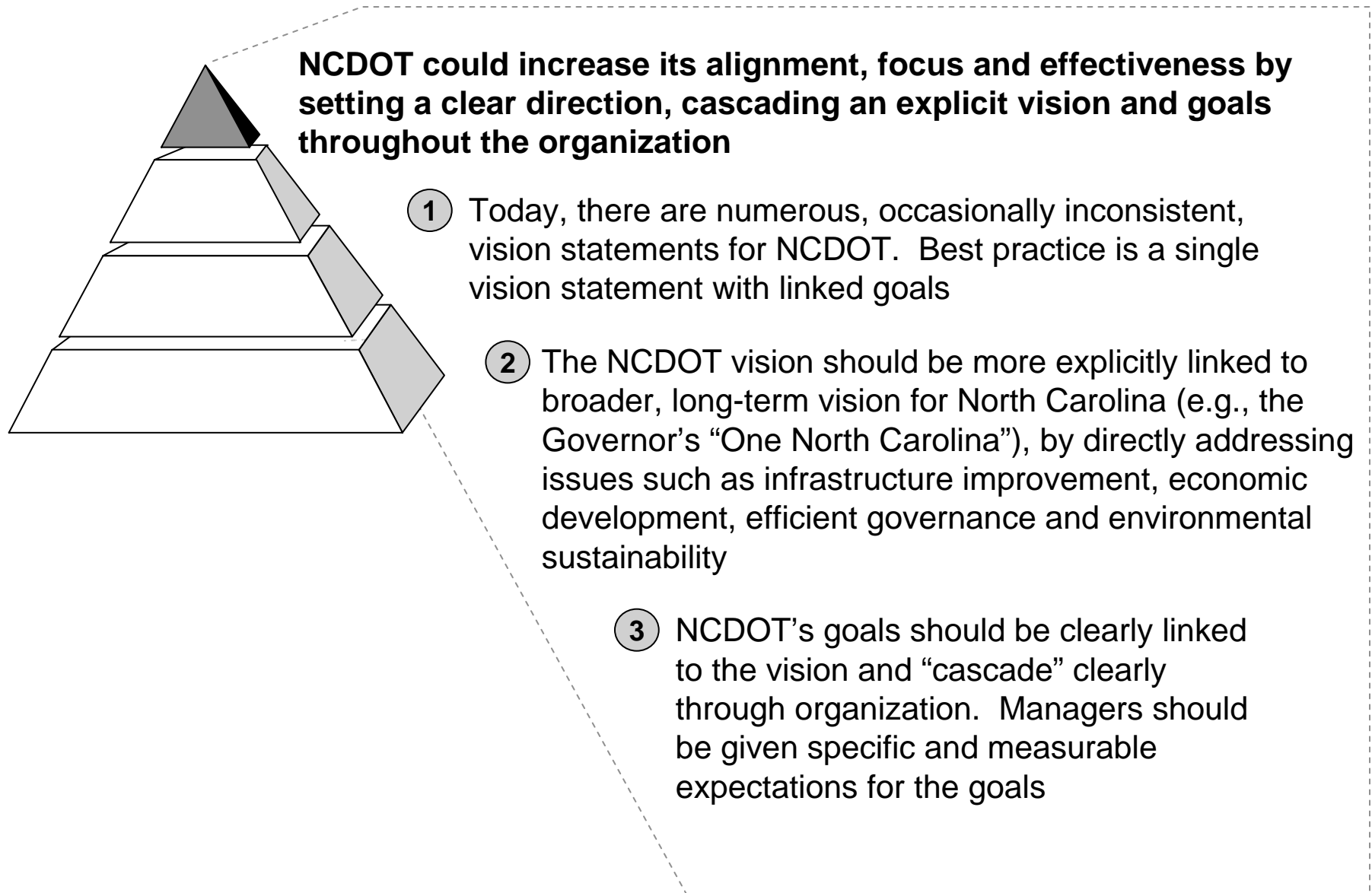
- | | | |
|---|---|--|
| ✓ | Near-term budget stabilized | <ul style="list-style-type: none"> • NCDOT's Cash Management initiative has helped to bring spending in line with funding, reducing a \$440 MM shortfall in FY2005 to \$2 MM in FY2006 • <i>"Things were pretty hectic for a long time on the accounting side, but now we're at the point where we can start to take the time to really get healthy again"</i>
– Executive Committee interview |
| ✓ | External stakeholders supportive of change | <ul style="list-style-type: none"> • <i>"You need a revolution here, not just more tweaking"</i>
– Board of Transportation interview • <i>"We are eager to see change at DOT and prepared to act as partners"</i>
– MPO interview |
| ✓ | Key leaders committed to change | <ul style="list-style-type: none"> • <i>"The team in place now is in a great position to get something done"</i>
– Board of Transportation interview • <i>"I have been here for 27 years and I've never seen anything like this from the upper management before"</i>
– Steering Committee interview |
| ✓ | Technical skills necessary to deliver | <ul style="list-style-type: none"> • <i>"I was in the private sector for 11 years, and I have to say that in my job now I work with some of the most talented, professional people I have ever met"</i>
– Executive Committee interview • <i>"Employees here really know how to deliver, you just need to tell them what has to get done"</i>
– Division Engineers workshop |
| ✓ | Employees proud to serve, with a "can do" attitude | <ul style="list-style-type: none"> • <i>"I love serving the citizens of North Carolina... even though they hate us."</i>
– Transportation Workers focus group • <i>"There is a lot of pride in my work ... Sometimes people say 'thank you' and that makes it all worth it"</i>
– Transportation Supervisors focus group |

SIGNIFICANT OPPORTUNITIES TO IMPROVE SERVICE TO NORTH CAROLINIANS

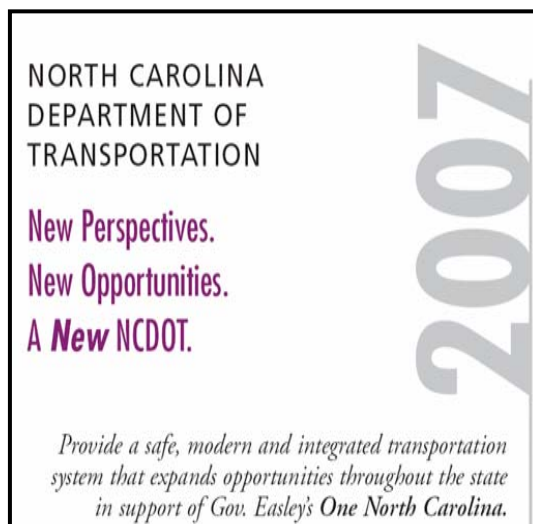
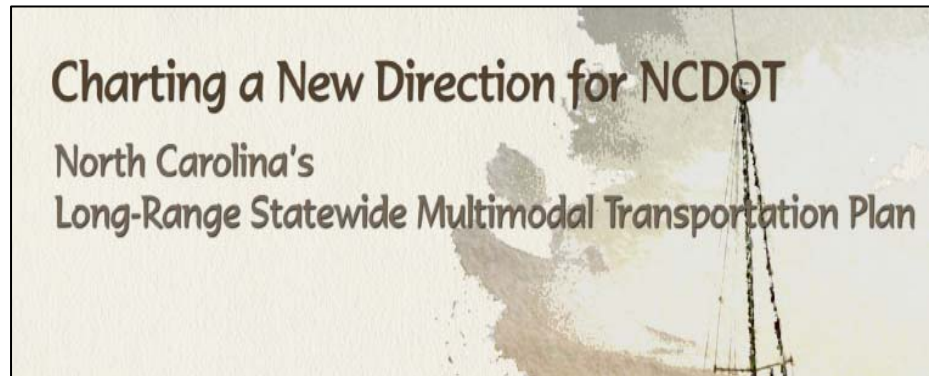
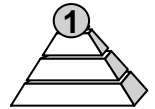
Summary of opportunities



OPPORTUNITIES TO IMPROVE VISION AND GOALS



PROGRESS HAS BEEN MADE IN CREATING NEW VISIONS AND GOALS, BUT THESE ARE NOT ALWAYS CONSISTENT



NCDOT CHALLENGE AND VISION

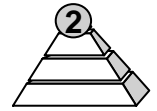
NCDOT has embarked on a transformation program to remake the agency, in light of the challenges it faces.

NCDOT's new Vision is to:

- Play a key role in the improvement of North Carolina's logistics system - offering more proactive, aggressive, integrated, traffic responsive, cooperative, automated, & integrated solutions by:
 - Establishing statewide standards for mobility / asset condition / safety; with varying standards for each travel tier and clear performance measures – highly visible to stakeholders

- NCDOT's strategy documents express similar but not entirely consistent themes
- Goals have been expressed in some forms but are not explicit
- When asked to articulate NCDOT goals, the steering group offered 10 divergent responses

THE CURRENT VISION COULD ALSO MORE TIGHTLY CONNECT TO STATEWIDE VISION



NCDOT – relevant agenda items

- Establishing an aggressive strategy for job creation and economic growth
- Improving our infrastructure
- Protecting the environment
- Making government more efficient

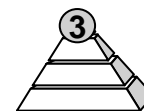
Not obviously relevant

- Continuing our investments in education to build a skilled workforce
- Ensuring secure communities
- Providing quality health care to those who can least afford it

If aligned with the statewide vision, NCDOT's vision and goals would emphasize its role in:

- **Economic development**
- **Increased efficiency**
- **Infrastructure improvement**
- **Environmental protection**

VISION AND GOALS DO NOT CASCADE THROUGH THE ORGANIZATION



Survey and interview results suggest confusion about goals and vision:

1 out of 5 employee survey respondents believe NCDOT's vision is communicated deep into the organization

16% of employee survey respondents think that management aligns NCDOT's aspirations with employee goals

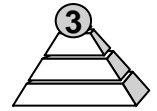
"Our organization lacks consistent and well-communicated goals that meet the public's needs and expectations"
– Director survey response

"Management is concerned about budget and schedule. I care about quality and safety"
– Transportation Supervisor focus group

"The big picture does not filter down to the rank and file employee"
– Supervisor survey response

"We need to set the goals so they're clear, and need to narrow them down to what they really mean to divisions"
– Division Engineer Workshop

BEST PRACTICE GOALS ARE LINKED TO VISION AND CONSISTENTLY ARTICULATED



EXAMPLE

**TxDOT HAS
A Plan**

VISION

We will deliver a 21st century, multi-modal transportation system that will enhance the quality of life for Texas citizens and increase the competitive position for Texas industry by implementing innovative and effective transportation programs.

building, operating and maintaining the state's transportation system. Our goals are to:

- reduce congestion,
- enhance safety,
- expand economic opportunity,
- improve air quality, and
- increase the value of transportation assets.

TEXAS DEPARTMENT OF TRANSPORTATION

Meeting the Texas Transportation Challenge

Legislative Strategies Addressing the Goals of:

- Reducing Congestion,
- Enhancing Safety,
- Expanding Economic Opportunity,
- Improving Air Quality and
- Increasing the Value of Transportation Assets

GOALS

1. Reduce congestion
2. Enhance safety
3. Expand economic opportunity
4. Improve air quality
5. Increase the value of transportation assets

TEXAS DEPARTMENT OF TRANSPORTATION

TxDOT: Open For Business

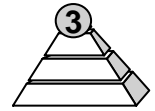
A GUIDE TO ACCELERATING TRANSPORTATION PROJECTS

1. Reduce congestion
2. Enhance safety
3. Expand economic opportunity
4. Improve air quality
5. Increase the value of transportation assets

TexDOT's 5 goals and vision are always expressed using the same language

This consistency reminds internal and external stakeholders of the DOT strategy

GOALS SHOULD CASCADE- TRANSLATE INTO SPECIFIC AND MEASURABLE EXPECTATIONS FOR LEADERS OF UNITS



EXAMPLE

Tangible Results



- Uninterrupted Traffic Flow
- Smooth and Unrestricted Roads and Bridges
- Safe Transportation System
- Roadway Visibility
- Personal, Fast, Courteous and Understandable Response to Customer Requests (Inbound)
- Partner With Others to Deliver Transportation Services
- Leverage Transportation to Advance Economic Development
- Innovative Transportation Solutions
- Fast Projects That Are of Great Value
- Environmentally Responsible
- Efficient Movement of Goods
- Easily Accessible Modal Choices
- Customer Involvement in Transportation Decision-Making
- Convenient, Clean and Safe Roadside Accommodations
- B&E
- AI
- AI
- AI

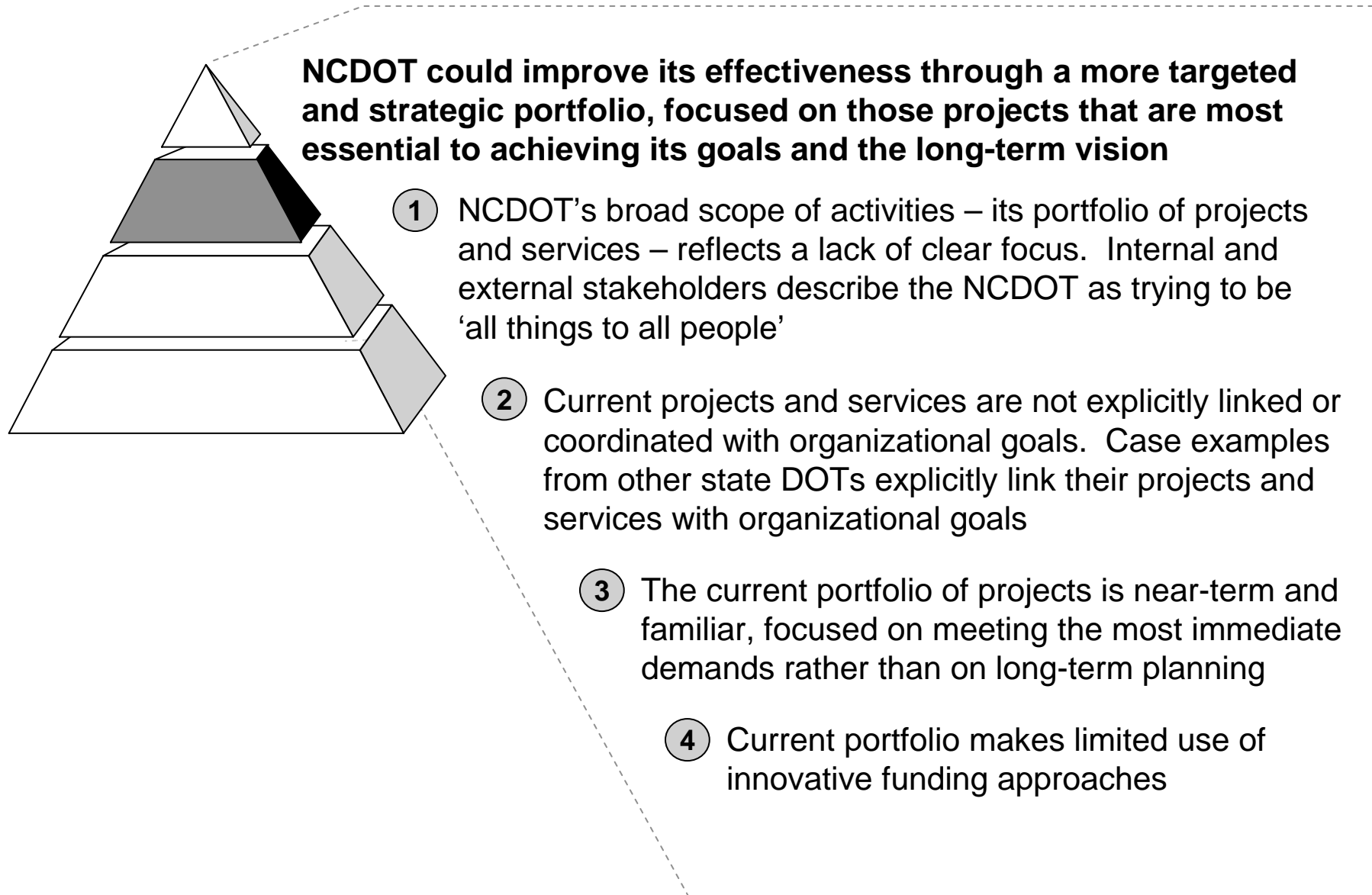
TRACKER Table of Contents

Uninterrupted Traffic Flow – Don Hillis (Page 1)		
Average speeds on selected roadway sections	Troy Pinkerton	1a
Average rate of travel on selected signalized routes	Julie Stotlemeyer	1b
Average time to clear traffic incident	Rick Bennett	1c
Average time to clear traffic backup from incident	Rick Bennett	1d
Number of customers assisted by the Motorist Assist program	Rick Bennett	1e
Percent of Motorist Assist customers who are satisfied with the service	Rick Bennett	1f
Percent of work zones meeting expectations for traffic flow	Scott Stotlemeyer	1g
Time to meet winter storm event performance objectives on major and minor highways	Tim Jackson	1h
Smooth and Unrestricted Roads and Bridges – Kevin Keith (Page 2)		
Percent of major highways that are in good condition	Jay Bledsoe	2a
Percent of minor highways that are in good condition	Jay Bledsoe	2b
Percent of deficient bridges on major highways	Jay Bledsoe	2c
Percent of deficient bridges on minor highways	Jay Bledsoe	2d
Number of deficient bridges on the state system (major & minor highways)	Jay Bledsoe	2e
Safe Transportation System – Don Hillis (Page 3)		
Number of fatalities and disabling injuries	Leanna Depue	3a
Number of impaired driver-related fatalities and disabling injuries	Leanna Depue	3b
Rate of annual fatalities and disabling injuries	Leanna Depue	3c
Percent of safety belt/passenger vehicle restraint use	Leanna Depue	3d
Number of bicycle and pedestrian fatalities and disabling injuries	Leanna Depue	3e

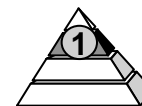
- MoDOT provides specific metrics and individual responsibility for each goal

- Progress towards each goal is provided in published monthly “Tracker” reports

OPPORTUNITIES TO IMPROVE PORTFOLIO OF PROJECTS AND SERVICES



NCDOT HAS A WIDE SCOPE OF ACTIVITIES, LEADING TO A TENDENCY TO BE “ALL THINGS TO ALL PEOPLE”



Public lane miles by ownership

State	% of Rural Statewide Ownership	% of Urban Statewide Ownership	% of Total Statewide Ownership
Florida	18.0%	13.8%	15.6%
Georgia	19.4%	17.9%	19.0%
North Carolina	89.5%	43.8%	78.0%
South Carolina	63.4%	69.0%	64.4%
Texas	33.6%	19.7%	29.5%
Virginia	95.6%	47.0%	80.3%
50 State Average	23.2%	18.2%	21.9%

Source: Highway Statistics - US Department of Transportation Federal Highway Administration

- **NCDOT’s scope is among the biggest in the country:**
 - Second only to Texas in terms of total lane miles
 - Second only to Virginia in percent ownership of total lane miles

“The concept that we’re going to provide some level of service to everybody everywhere is a real problem. We’re espousing a goal we have no chance of achieving”

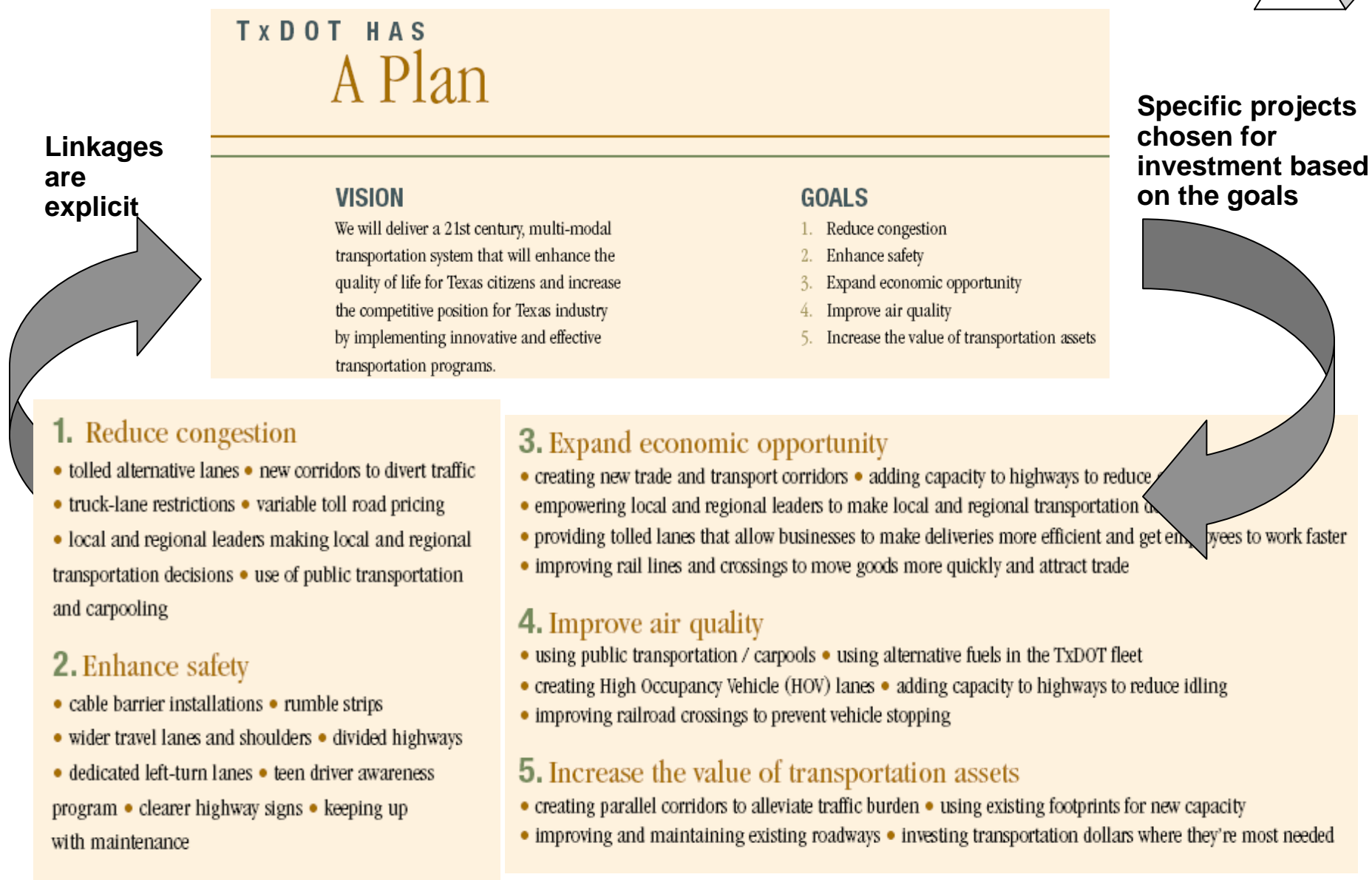
“It seems like stakeholders think we’re here to be all things to all people. Having a clear vision would communicate our boundaries”

- **This scope raises concerns about lack of clear focus**

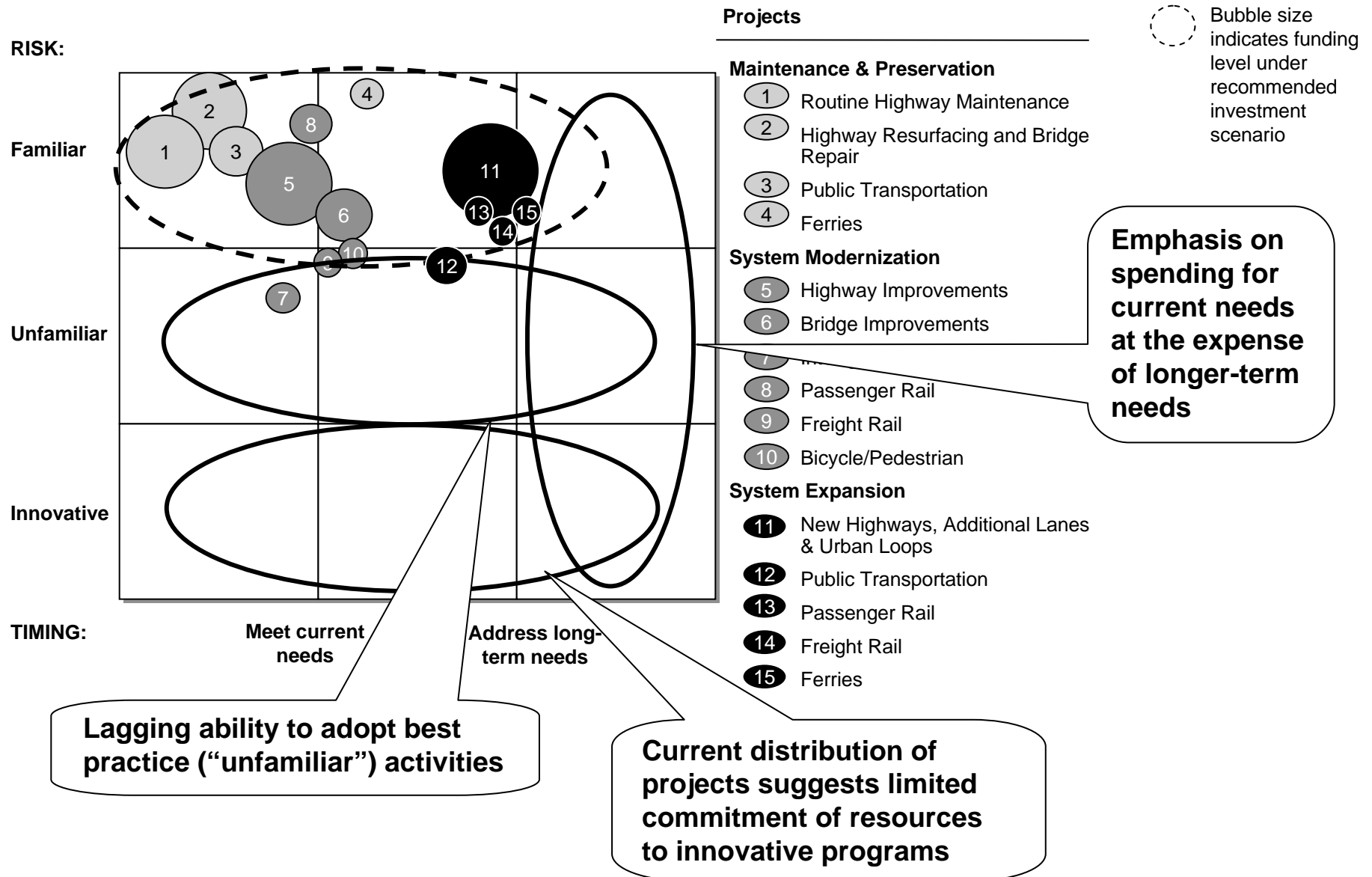
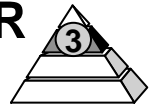
CURRENT PROJECTS AND SERVICES ARE NOT EXPLICITLY LINKED OR COORDINATED WITH VISION AND GOALS



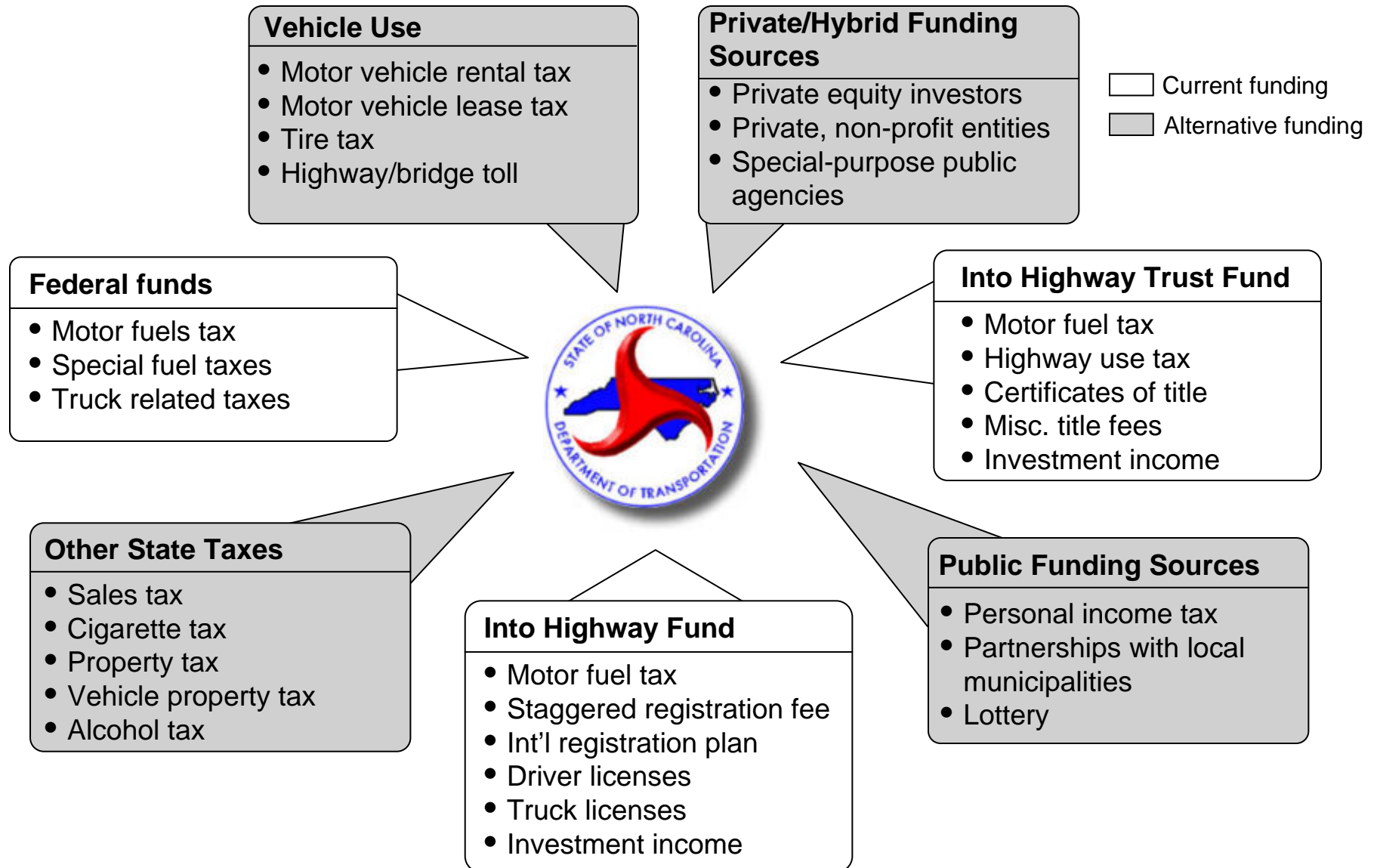
OTHER STATE DOTs CONNECT THEIR GOALS AND PROJECTS



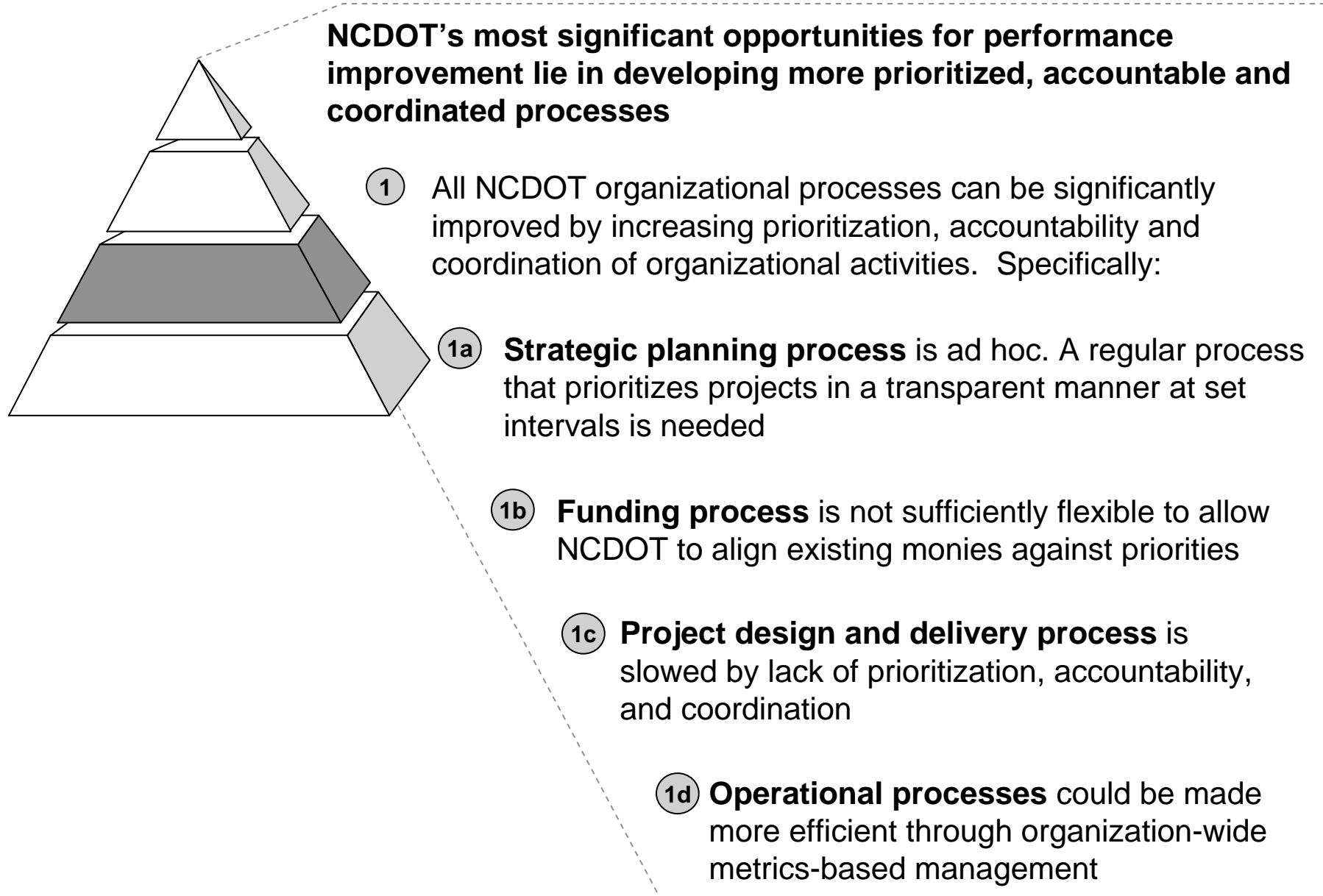
CURRENT PORTFOLIO OF PROJECTS IS NEAR-TERM AND FAMILIAR



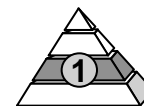
MANY FUNDING ALTERNATIVES STILL AVAILABLE TO NCDOT, RANGING FROM PUBLIC, PRIVATE, AND HYBRID METHODS



OPPORTUNITIES TO IMPROVE CORE PROCESSES



MOST ORGANIZATIONAL PROCESSES COULD BE IMPROVED ALONG EACH OF THESE DIMENSIONS



Prioritization

- *“Clear prioritization could cut 3 years off the big projects.”*
– Preconstruction manager
- *“What we work on depends on who’s screaming the loudest.”*
– Preconstruction manager
- *“I arrive every day to a whole new set of emails pressuring me to do work on something different from what I was working on yesterday.”*
– Preconstruction supervisor

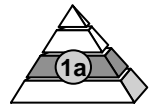
Accountability

- Only 37% of employee survey respondents believe that each area of NCDOT has explicit targets for key performance indicators.
- *“It’s hard to have explicit metric because schedules and budgets keep changing.”*
– Construction manager
- *“We don’t always manage directly to metrics mostly because units face factors outside their control.”*
– Preconstruction manager

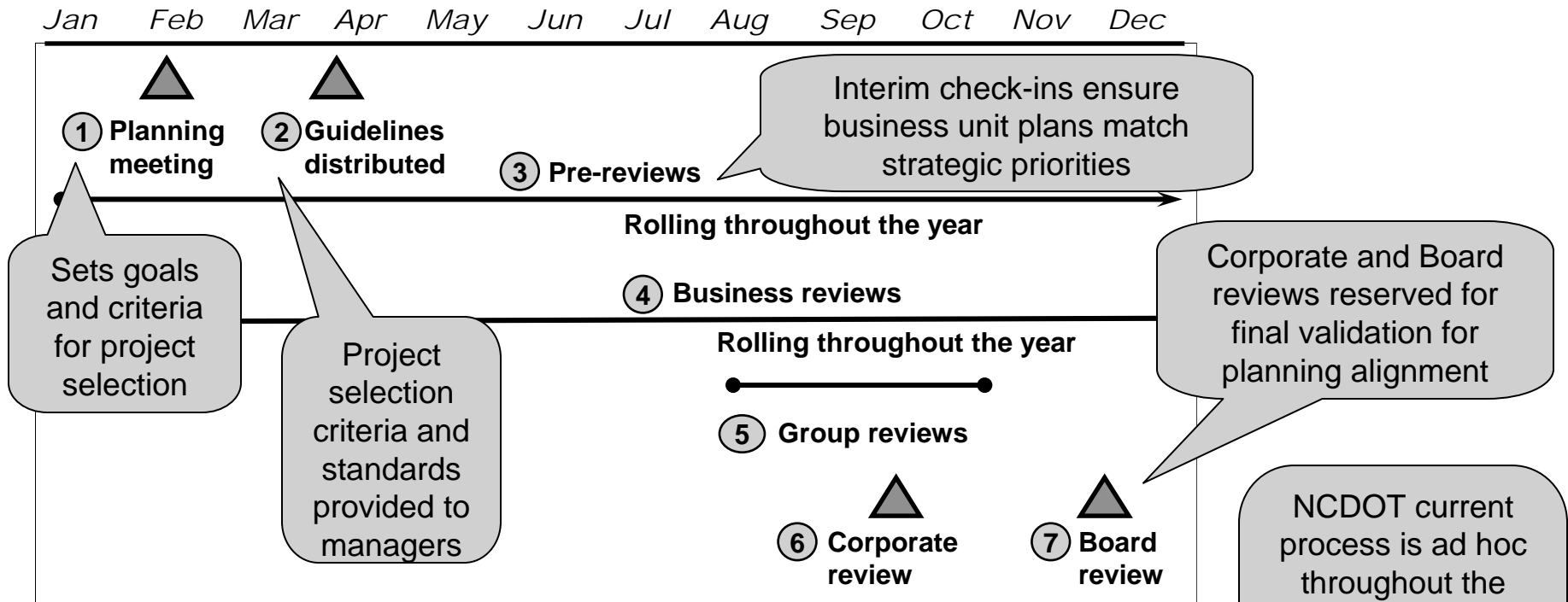
Coordination

- Only 19% of employee survey respondents believe that NCDOT’s systems and processes produce cross-functional/departmental initiatives.
- *“We throw things over the wall here. Everyone’s accountable to their tribe.”*
– Division Engineer
- *“Imagine two guys in a garage full of car parts, with a black curtain that splits the garage in half and these guys have to build a car by passing notes to each other from either side. That’s Preconstruction.”*
– Preconstruction engineer

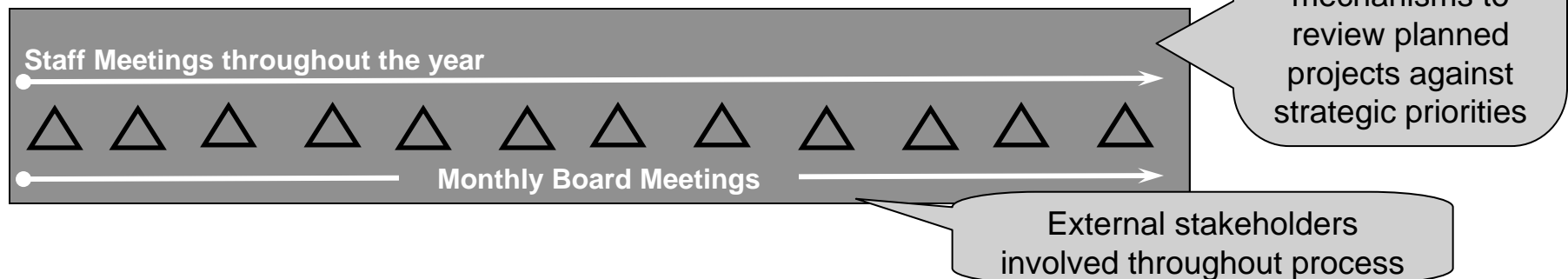
NCDOT's CURRENT STRATEGIC PLANNING IS AD-HOC COMPARED TO A BEST PRACTICE PROCESS



Best Practice 5-10 Year Planning Process



NCDOT Planning Process



OUTCOME OF AD-HOC STRATEGIC PLANNING IS LACK OF PROJECT PRIORITIZATION

STIP example



TRANSPORTATION PROGRAM					GATES COUNTY		
ROUTE/CITY	ID. NO. / BREAK	LOCATION - DESCRIPTION - MILEAGE - BREAK		WORK TYPE	FUNDING SOURCE	COST ESTIMATES (THOU)	SCHEDULE (FISCAL YEARS)
RURAL PROJECTS							
US 13	R-2507*	US 158 TO THE VIRGINIA STATE LINE. WIDEN TO MULTI-LANES.	15.5 Mile(s)			1,400	PRIOR YEARS
				PLANNING/DESIGN MITIGATION	T	3,301	IN PROGRESS UNFUNDED
	A	US 158 IN WINTON TO US 158 BYPASS IN TARHEEL.		RIGHT-OF-WAY MITIGATION	T	8,000	FY 10
				CONSTRUCTION	T	2,889	FY 12
					T	28,400	FY 13
	B	US 158 BYPASS IN TARHEEL TO SR 1202 (EURE ROAD-GATES SCHOOL ROAD).		RIGHT-OF-WAY CONSTRUCTION	T	2,300	UNFUNDED
					T	12,500	UNFUNDED
	C	SR 1202 (EURE ROAD-GATES SCHOOL ROAD) TO VIRGINIA STATE LINE.		RIGHT-OF-WAY CONSTRUCTION	T	3,800	UNFUNDED
					T	13,100	UNFUNDED
STRATEGIC HIGHWAY CORRIDOR				TOTAL PROJECT COST		73,490	
US 158	R-2578*	US 13 TO NC 32 IN SUNBURY. WIDEN TO MULTI-LANES.	15 Mile(s)	RIGHT-OF-WAY CONSTRUCTION	T	14,000	UNFUNDED
					T	49,000	UNFUNDED
STRATEGIC HIGHWAY CORRIDOR				TOTAL PROJECT COST		63,000	
US 158	R-2579*	NC 32 IN SUNBURY IN GATES COUNTY TO US 17 AT MORGAN'S CORNER IN PASQUOTANK COUNTY. WIDEN TO MULTI-LANES.	15.6 Mile(s)			100	PRIOR YEARS
							IN PROGRESS
				PLANNING/DESIGN RIGHT-OF-WAY	T	8,400	FY 11
				CONSTRUCTION	T	87,000	UNFUNDED
STRATEGIC HIGHWAY CORRIDOR				TOTAL PROJECT COST		95,500	

"I know how my section prioritizes projects, but I'm not sure exactly how the sections outside of ours do it, or for that matter the sections outside of those"
– Preconstruction supervisor

"We know the trouble spots in our division where the serious problems are, so why are we doing random political projects?"
– Transportation technician

"Just tell us the 'why' of some of these project decisions by upper management, that's all we need"
– Administrative supervisor

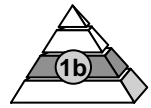
"We never know what NCDOT's current priorities are, so it's hard for us to know where we stand"
– MPO Representative


- Listing in STIP is alphabetical by county and expected date of completion
- No clear prioritization based on relative importance or criticality of project
- Lack of transparency internally and externally results

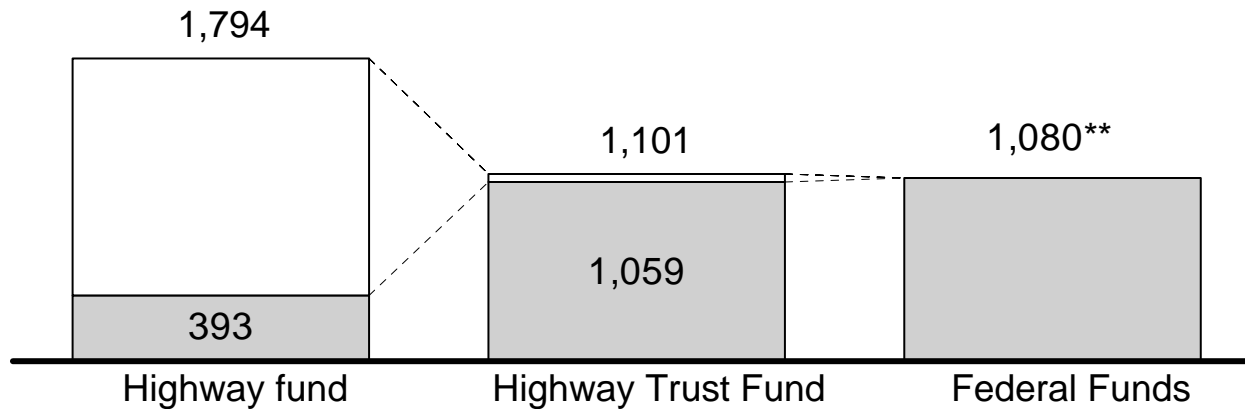
FUNDING PROCESS IS NOT SUFFICIENTLY FLEXIBLE

FY 2007 budget

U.S. \$ Millions



 Restricted funding*



Uses

- ~50% for maintenance work; remainder for operations
- ~87% of funds used for matching on TIP projects and remainder for secondary roads and municipal aid
- All funds devoted to TIP projects, including interstate maintenance and National Highway System

Restrictions

- NC legislative statute dictates where Highway Fund dollars can be used
- Subject to NC statutory restrictions that dictate locations and programs for fund use
- Based on Federal regulations on use of TIP funds

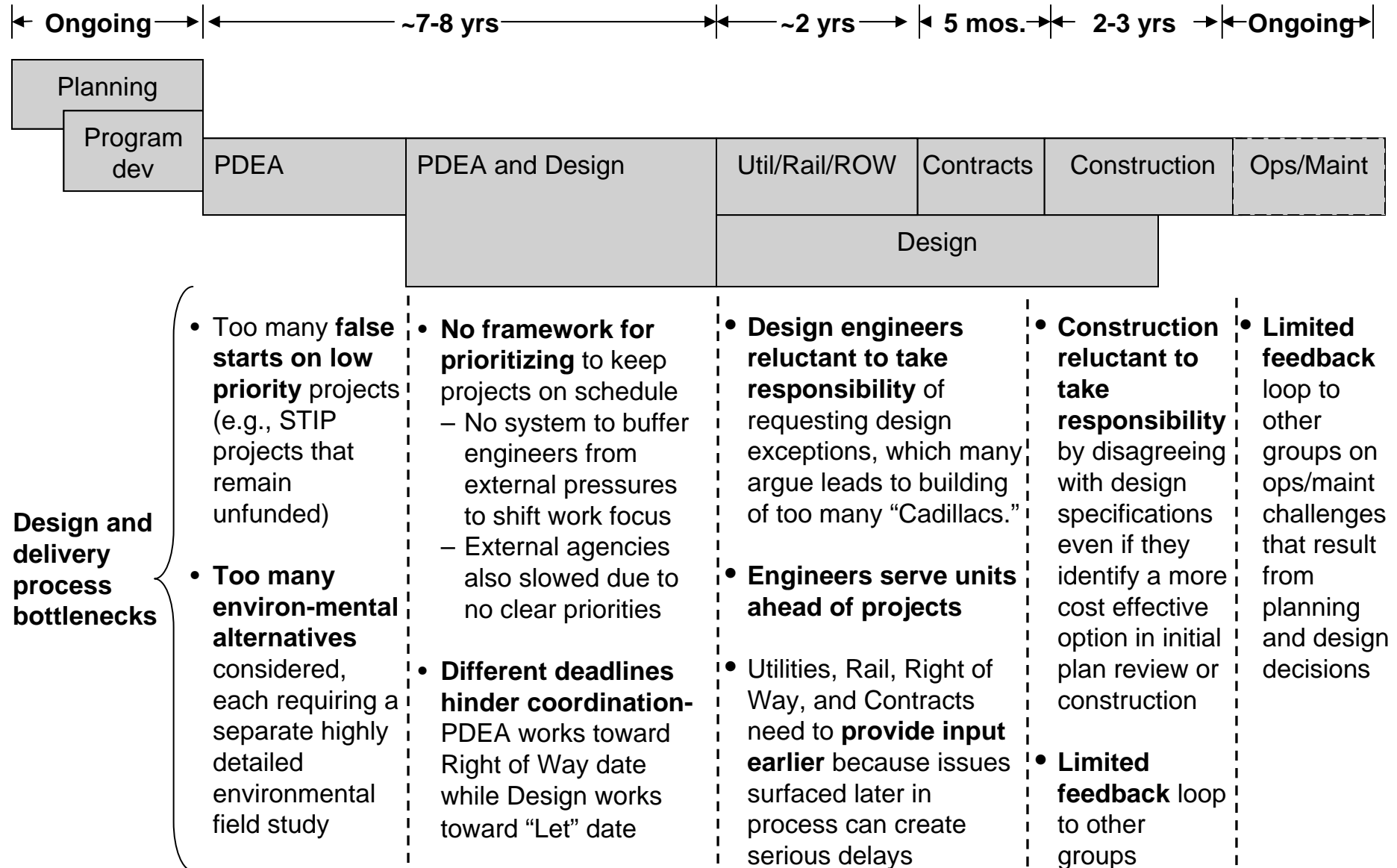
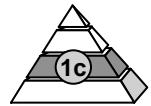
- ~62 percent of \$3.98 billion in total budgeted NCDOT funding is subject to some form of external restrictions

- Many restrictions are NC-imposed

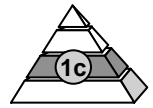
* "Restricted Funds" refers to those subject to NC statutory, U.S. statutory, and FHWA regulatory restrictions; does not include NCDOT-imposed restrictions (allocation formulas, budgetary restrictions)

** Figure based on FY2007 U.S. Federal appropriation and does not account for obligation limitation

PROJECT DESIGN AND DELIVERY PROCESS SUFFERS FROM SEVERAL BOTTLENECKS



INCONSISTENT METRICS REDUCE ACCOUNTABILITY ACROSS PROJECT DESIGN AND DELIVERY PROCESS

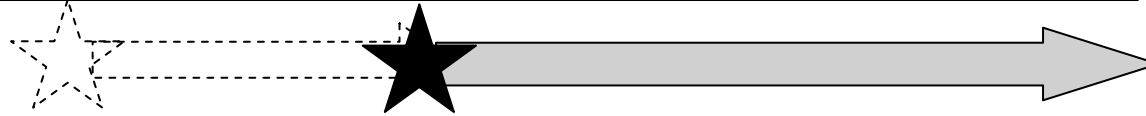


PRELIMINARY

★ Indicates phase in which performance managed to metric



Time

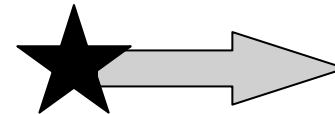


"Once the construction begins, they [construction supervisors] know they have more projects waiting in line to get done so time is an important metric" – Senior interview

"When the project gets to us, we're under the gun to get it done to specs on time."

– Construction supervisor

Budget



"When a project gains some momentum, staying within budget gets more and more important"

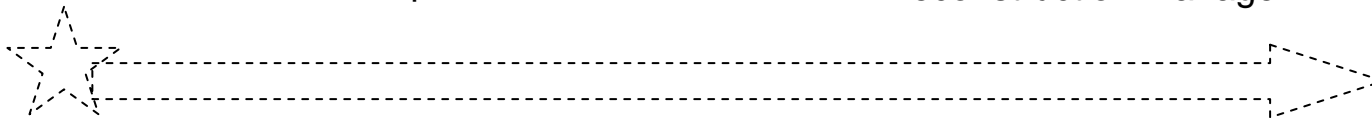
– Construction Supervisor

"I don't think anyone really gets held accountable for project costs until the construction phase"

– Preconstruction Manager

Even where metrics exist, they're often not explicitly managed to

Quality



"If the slightest part of the inspection or environmental paperwork is off, it can set the project back indefinitely — quality is a main concern the whole way through"

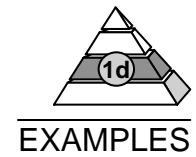
– Preconstruction supervisor

"Quality has risen in prominence across all of DOT after the I-40 incident. Management has been stressing quality more than ever before"

– Senior interview

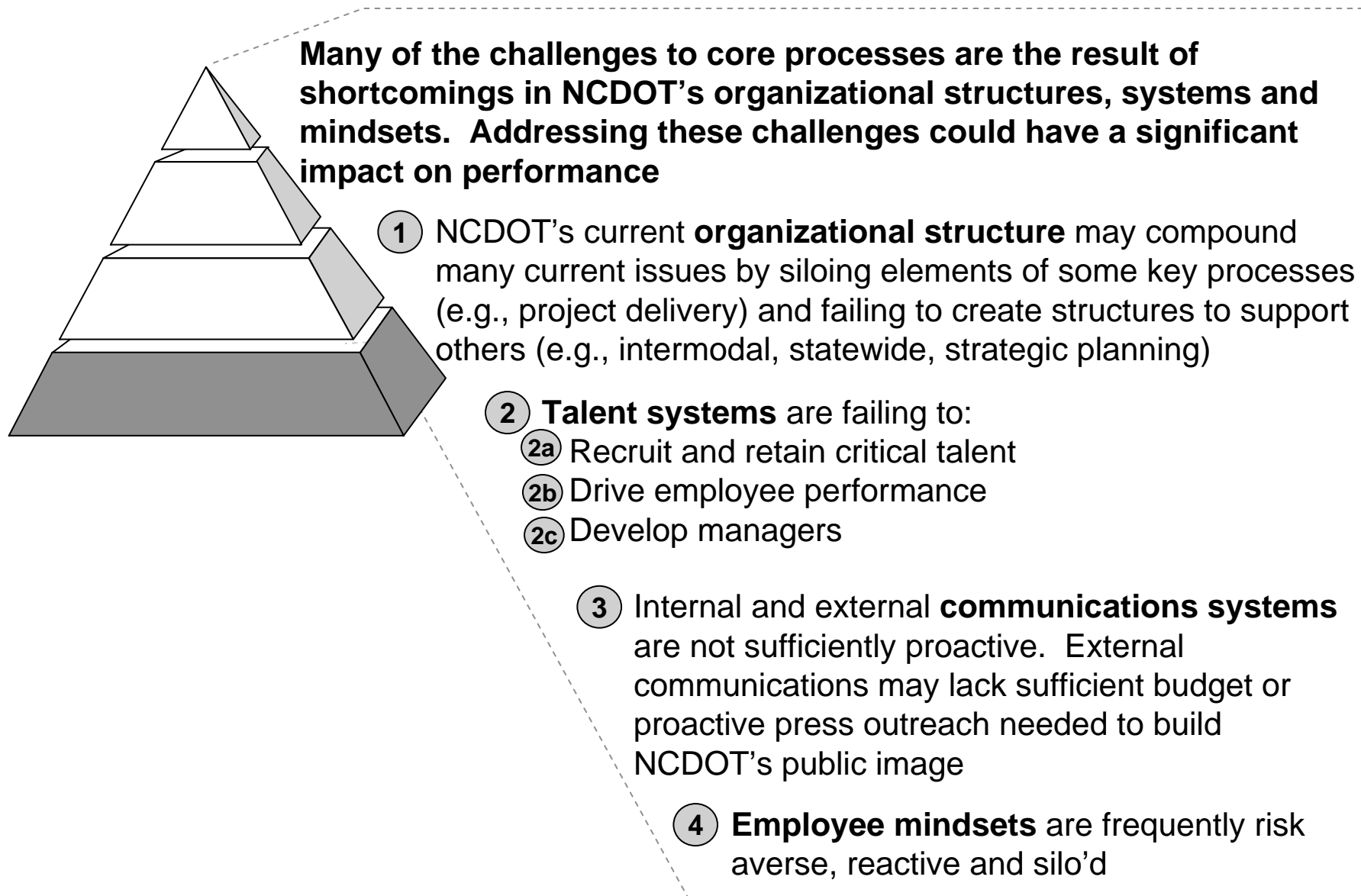
* Schedule measured in PDEA but deadlines frequently slide due to external factors

NCDOT HAS INTRODUCED OPERATIONAL METRICS IN ONLY ISOLATED POCKETS OF THE ORGANIZATION . . .

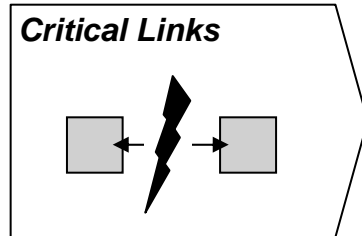
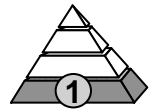


	Initiative	Outcome
DOH-Maintenance	<ul style="list-style-type: none"> • Maintenance Management System • Squad-level maintenance performance incentives 	<ul style="list-style-type: none"> • More efficient use of resources through planning and scheduling • Increased production from workforce, as compared to prior years' performance
DMV	<ul style="list-style-type: none"> • Customer wait-time monitoring • Operational improvement initiatives (e.g., reorganization of purchasing agents) • Tracking of performance indicators (e.g., number of school bus drivers trained) 	<ul style="list-style-type: none"> • Quantitative statistics used to track and resolve bottlenecks in DMV customer experience • Significant financial and efficiency gains in core processes (scale economies in purchasing) • Observations of DMV functions provide business intelligence on economic trends (recognition of a retention problem with NC school bus drivers)

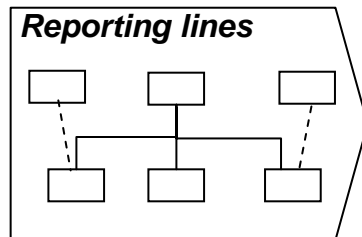
OPPORTUNITIES TO IMPROVE ORGANIZATIONAL STRUCTURES, SYSTEMS AND MINDSETS



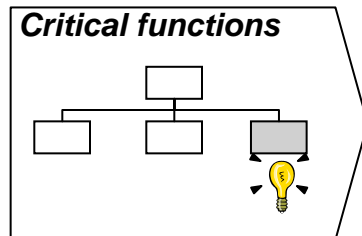
NCDOT'S CURRENT STRUCTURE MAY COMPOUND MANY STRATEGIC AND PROCESS CHALLENGES



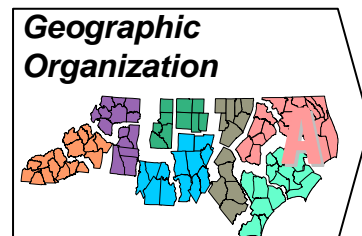
- Some activities that require coordination are not explicitly linked (e.g., within a single managerial boundary or through another formal coordination mechanism)



- Some critical roles have additional “dotted-line” reporting relationships that may hinder their accountability



- Lack of organizational units to undertake critical activities



- Division lines may not logically support effective strategy and process implementation

Example

- No end-to-end owners of projects
- Engineers report directly to units instead of project managers
- Best engineers often called on to help Turnpike Authority
- State restrictions inhibit IT customer service orientation
- No dedicated strategic planning group
- No dedicated internal communications group
- Raleigh, Durham, Chapel Hill area split into two
- 14 divisions in North Carolina compared to 9 in Virginia
- Rural/urban regions

TALENT SYSTEM REGULATIONS MAY BE HURTING RECRUITING OF EXTERNAL AND INTERNAL TALENT



Relevant quotes and data

“10 percent rule”

- Only 18% of employees believe that NCDOT continually refreshes its talent pool by recruiting top performers from outside the organization
- *“The [other agency’s] offer was 20% higher because they factored [in] her work experience. DOT could only offer 10% above the minimum”*
- *“Several managers factor in the 10% rule and often don’t interview individuals with excellent experience and credentials”*
- *“Missed hiring opportunities” from one ~200-person Branch in 2004-07*
 - 9 cases of the best candidate declining the job offer because of salary limitation; in some cases, this required a re-posting
 - 8 cases of individuals withdrawing due to salary limitation
 - 2 cases of an individual leaving to take job elsewhere because of salary limitation at time of hiring
 - 2 cases of multiple postings due to poor applicant pool

Relevant quotes and data

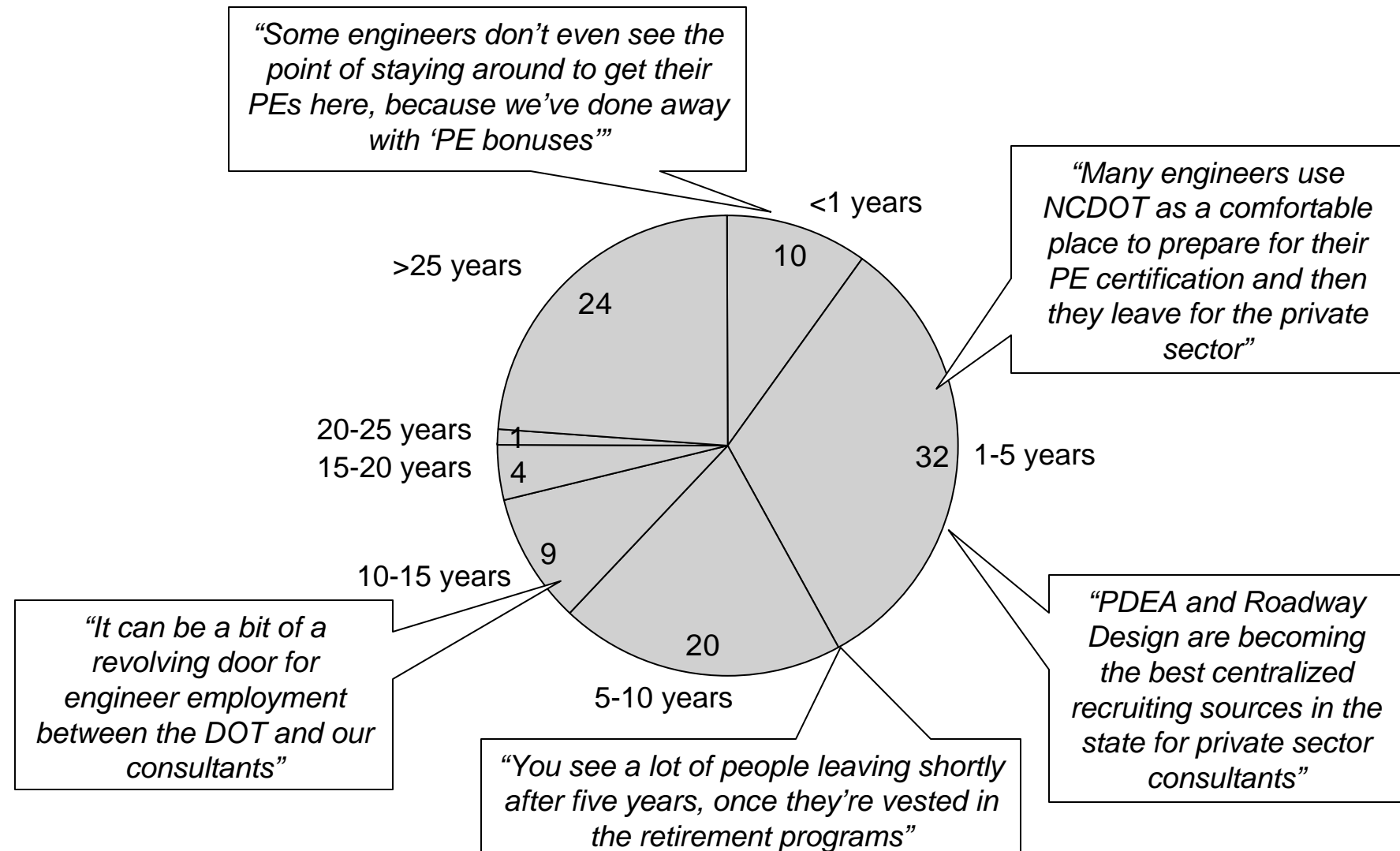
Multi-step hiring approval process

- *“I don’t see why the central Raleigh HR department needs to sign off when I want to hire a new transportation worker out in a division”*
- *“It ends up taking two or three months to hire someone and any decent candidate has usually found another job by the time we can offer them something”*

TALENT SYSTEMS ARE FAILING TO RETAIN CRITICAL TALENT

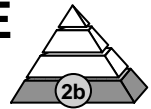
Attrition of engineers by tenure band

Percent



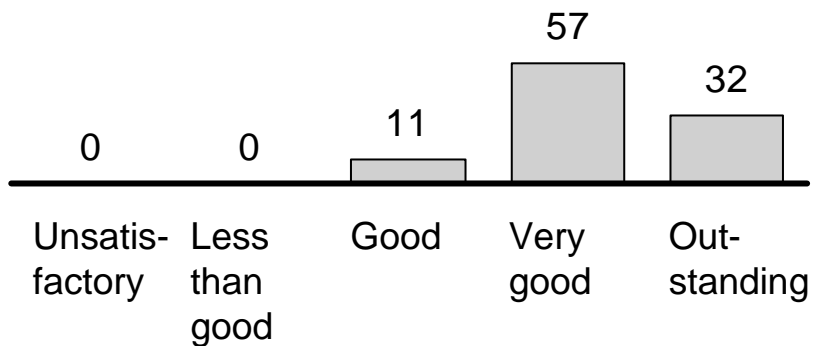
TALENT SYSTEMS DO NOT REWARD OR PENALIZE PERFORMANCE

NCDOT performance evaluations skew high compared to best practices . . .

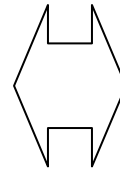


2006 NCDOT performance rating distribution

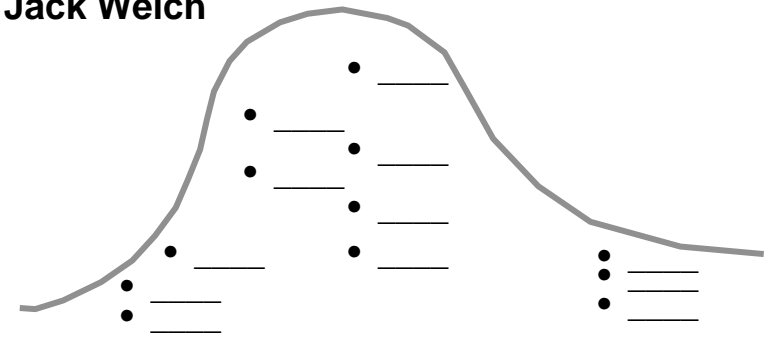
Percent, out of all employees



20% of 2006 voluntary attritions rated Outstanding	Very good and good performers receive no performance incentives	Less than 1% terminated every year
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Performance rating distribution at GE under Jack Welch



“Bottom 10”

Bottom
10%
terminated
every year

“The Vital 70”

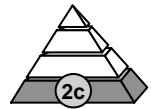
B players should
get annual
increases
recognising their
contributions

“Top 20”

“We lose less
than 1% of our
A’s per year”

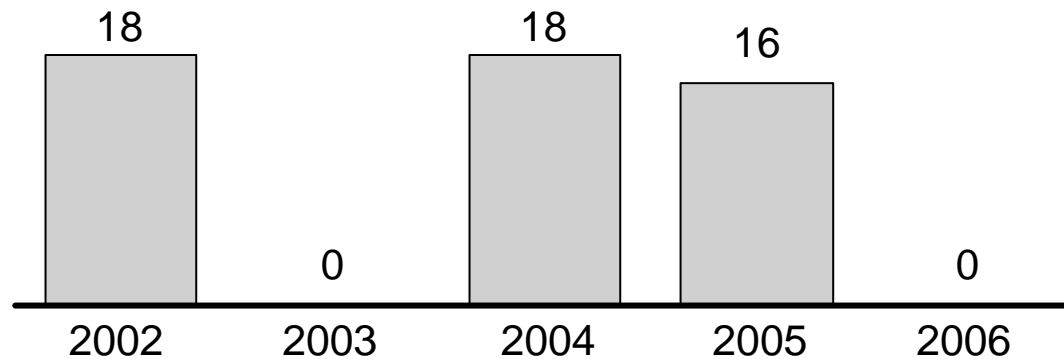
This system leads to low termination rates, i.e., NCDOT terminates 0.5% of employees per year vs. federal government terminations of 3.8% per year

TALENT SYSTEMS DEMONSTRATE LIMITED FOCUS ON MANAGEMENT PREPARATION AND DEVELOPMENT



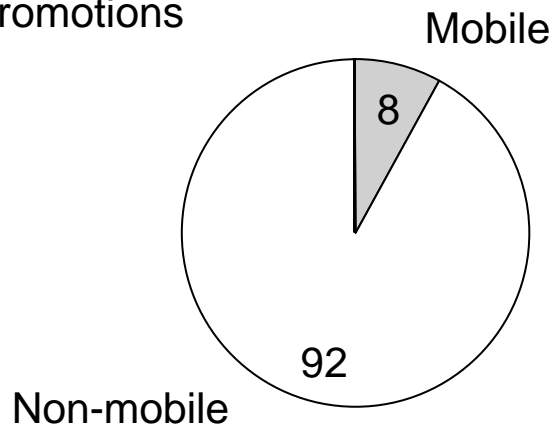
Low managerial attendance at North Carolina Public Manager Program

Out of 2,453 supervisors



Only 8% of DOT managerial promotions were to other units within the department

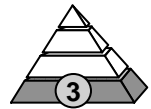
100%=77 promotions



Current management preparation and development indicates:

- Limited commitment of resources to managerial training
- Divergence from private sector best practices (GE, Procter & Gamble) of *required* mobility tours for all managers
- Over-reliance on on-the-job management training across organization

EMPLOYEES REPORT INTERNAL COMMUNICATION SYSTEMS VACUUM



Middle managers

Limited support for internal communications

- No budget allocated for staff or internal communications across DOT
- Published literature considered unclear
- Mass communications considered forced

"The top management should explain changes and get face-to-face communication with managers"

"I'd really like to see more information sharing for safety (and other) best practices across DOT"

"Intra-department communication is a big problem. There's a lot of store piping that causes overlap and waste in processes"

"A lot of decisions get made at higher levels without a lot of communication"

"If I were Secretary for a day, I would put out more communication from DOT about what strategy and vision is for the future"

Front line workers

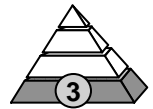
"Can we reduce the widening gap between front lines and management? I'm talking about a presence gap--we don't see or hear from anyone higher than our immediate supervisors."

"Somehow we need to fix the lack of communication coming from upper management."

"There needs to be a lot better communication. I am tired of all the heresay, I want to hear something firm."

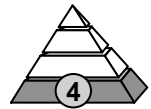
"Messages trickle down from the top management, but communication blockages along the way keep the messages from reaching us. I wish we could hear it direct from the top sometimes."

EXTERNAL COMMUNICATIONS EFFORTS HAS LIMITED BUDGET AND IS REACTIVE



	Owner	Description	Sample responses
Local Media and Public Relations	<ul style="list-style-type: none"> Division Engineers 	<ul style="list-style-type: none"> Divisions build local relationships and coordinate information share with communities 	<p>NCDOT IS GETTING WORD OUT ON 2 PLANS; WORKSHOPS SET ON U.S. 17, MILITARY CUTOFF</p> <p>– Wilmington Star</p>
Major State Media	<ul style="list-style-type: none"> Public Information Office 	<ul style="list-style-type: none"> Raleigh-based central office responds to press inquiries Frequent “fire-fighting” required 	<p>MIDSTATE WELCOME CENTERS UNDER FIRE; APPROVAL PROCESS FOR PAIR CALLED ‘DISTURBING’</p> <p>– Charlotte Observer</p>
Other Public Communication	<ul style="list-style-type: none"> Many parties involved; ownership not clearly assigned 	<ul style="list-style-type: none"> Wide range of public touch-points through project design and delivery process and other customer interactions (e.g., DMV, website) Limited deliberate planning for outreach to external stakeholders 	<p><i>“DOT views us as just another requirement in the process, not as partners”</i></p> <p>– MPO Representative</p> <p><i>“They don’t communicate with the public. Nobody appreciates what they do, they just get blasted for screwing up”</i></p> <p>– External stakeholder</p>

CURRENT EMPLOYEE MINDSETS RESTRICT GROWTH IN STRATEGIC AND ORGANIZATIONAL AREAS OF OPPORTUNITY



Reactivity

- *"I prioritize the work I do based on who is asking for it to get done"*
– Administrative worker
- *"My work as a manager is mostly spent fighting fires and answering people's mail, not doing the things that make progress"*
– Preconstruction supervisor

Lack of entrepreneurship

- *"The response to everything is, 'We've always done it that way'"* – Multi-modal worker
- *"I don't feel comfortable being able to express an opinion or idea without some kind of political ramification"*
– Clerical worker

Risk-aversion

- *"There is so much emphasis on safety and the environment around here that we are paralyzed to make decisions that get things done"* – Transportation supervisor
- *"We are so concerned about being all things to all people that we never let any balls drop, we just keep right on juggling"*
– Assistant resident engineer

Silo-ism

- *"We never get opportunities to work with anyone in other departments or sections—it's a very silo-based culture here"* – Preconstruction supervisor
- *"There are three different versions of IT, they all fall under different bosses, and they are each accountable to different policies"*
– IT supervisor

Lack of urgency

- *"Until projects get to us, they are just in this strange state of limbo—they just drift along for years at a time..."* – Transportation technician
- *"A real problem across DOT is a lack of urgency. There is a prevailing mentality that there is no reason to work quickly toward any specific end state because there's always tomorrow"*
– Steering committee member

NEXT STEPS- SEIZING OUR OPPORTUNITY, LEAVING OUR LEGACY

PRELIMINARY

A strong starting point for transformation

- Key leaders committed to change
- Near-term budget stabilized
- Technical skills necessary to deliver
- Employees proud to serve, with a 'can do' attitude
- External stakeholders supportive of change

Significant opportunities to improve service to North Carolinians

- Explicit articulation and cascading of direction through consistent vision and specific goals
- Development of a balanced portfolio of projects and services focused on those that are critical to achieving long-term vision
- Introduction of greater discipline, transparency and coordination in core processes
- Alignment of structure, systems and mindsets to achieve vision

Seizing our opportunity; Leaving our legacy

1. Exceptional **Public Transparency** that
 - Effectively solicits and utilizes *Stakeholder Input*
 - Explicit *Prioritization*
 - Clearly communicated *Expectations*
2. A distinctive **Employee Environment**, that attracts and rewards strong contributors while developing effective leaders
3. Judicious and innovative **Financial Stewardship**
4. Thoughtful **Environmental Stewardship**, charting a prosperous and sustainable future for North Carolina
5. **Accountability for Performance** (against 1-4) at every level of the organization,

CONFIDENTIAL

Preliminary Organizational Diagnostics Results for North Carolina Department of Transportation



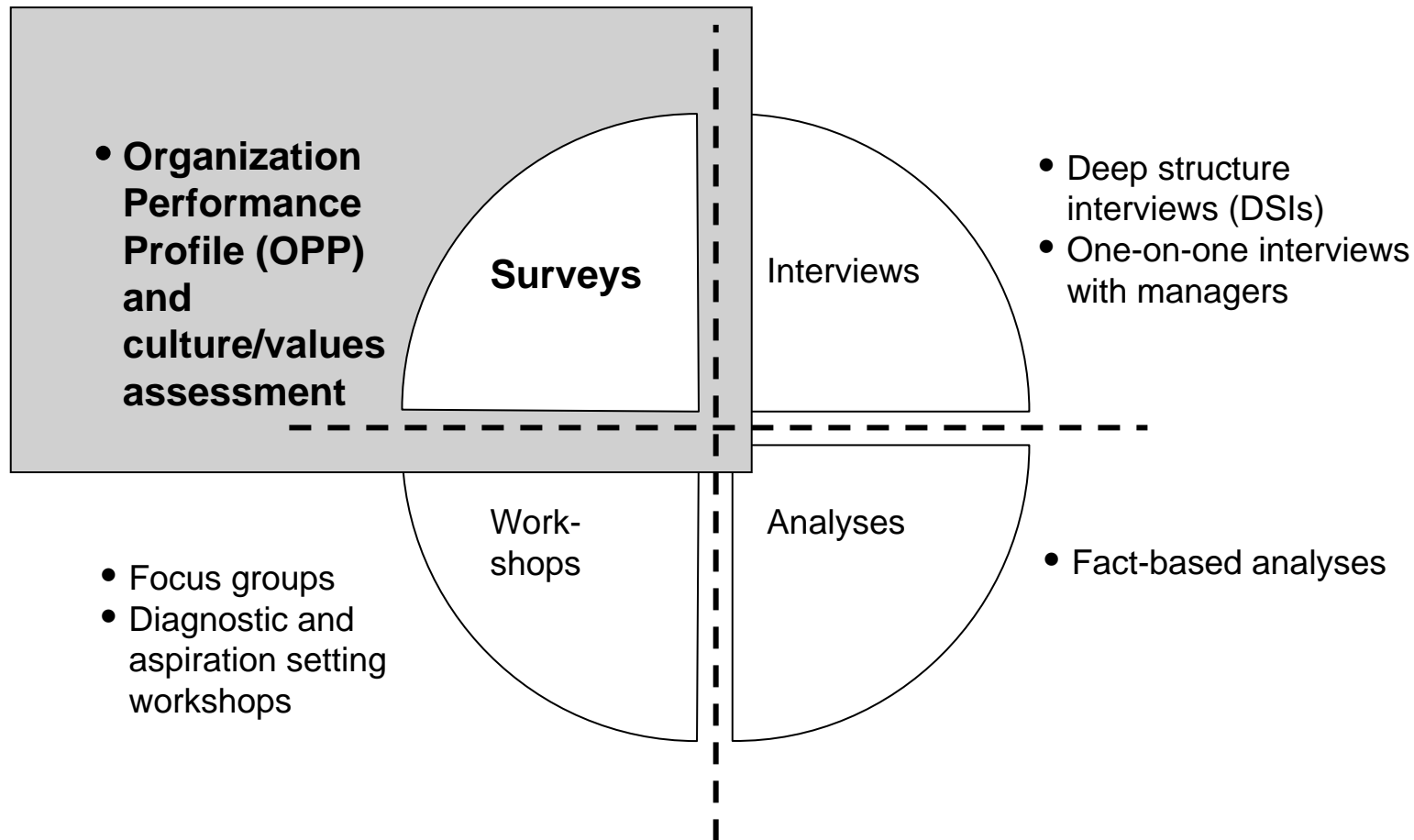
May 2007

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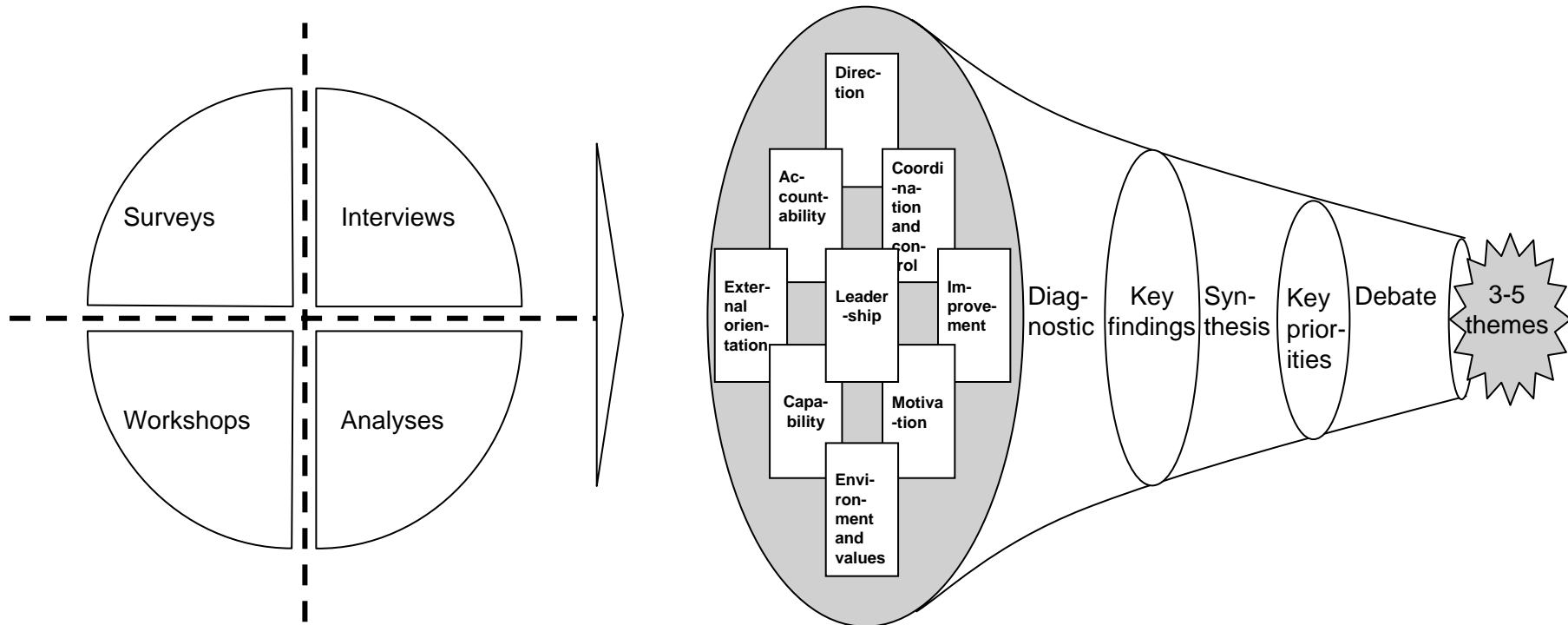
Contents

- **Background**
 - **The OPP survey in the context of the complete diagnostic**
 - **Definition of performance culture**
 - **Explanation of ratings**
- Overview of results
 - Emerging overall themes and overall profile outcomes
 - Comparisons with overall database
 - Overall practices profile
 - Profile snapshots
 - Detailed themes
 - Top 10 questions/Bottom 10 questions
 - Values survey
 - Survey comments
 - Question by question results

A DIAGNOSTIC REQUIRES MULTIPLE DATA SOURCES (THIS PACK FOCUSES ON THE SURVEY)



DATA IS THEN SYNTHESIZED TO CREATE A MANAGEABLE SET OF 'ACTION THEMES'



The diagnostic integrates information from 4 complementary assessment approaches ...

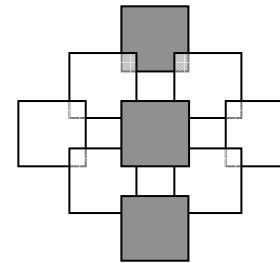
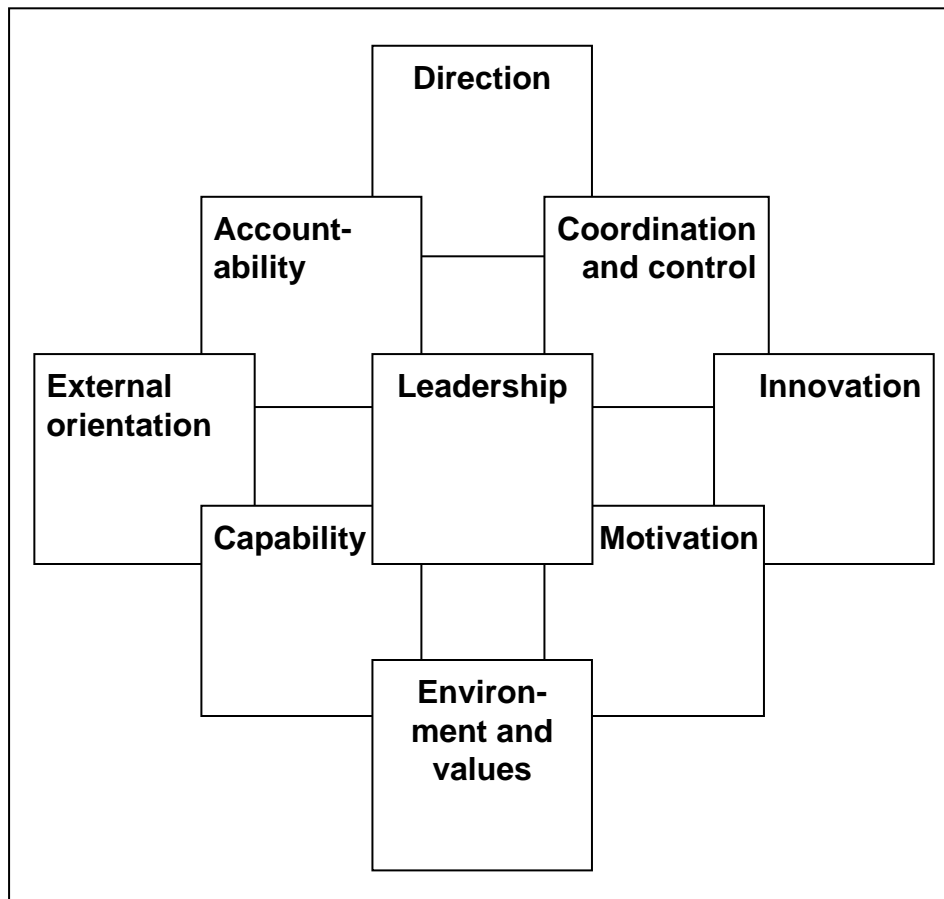
... identifying 3 to 5 themes for action

Note: As with any complex diagnostic that solicits input from thousands of employees, some general management issues are raised. In these cases, NCDOT is encouraged to look into these issues where possible and appropriate

ORGANIZATIONAL PERFORMANCE PROFILE

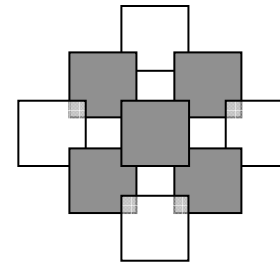
The profile

- Evaluates aggregate performance across clusters of alignment, execution, and renewal
- Allows deep dives into each of the elements (e.g. direction) to isolate outcomes, practices, and mindsets
- Creates a common language to discuss current performance as well as desired performance



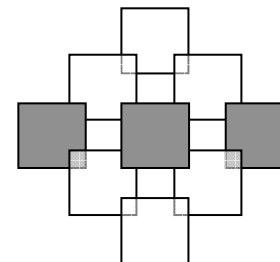
Alignment

“Do the vast majority of people in the organization understand and agree with where the company is going, how it will get there, and what it means for how they think and what they do?”



Execution

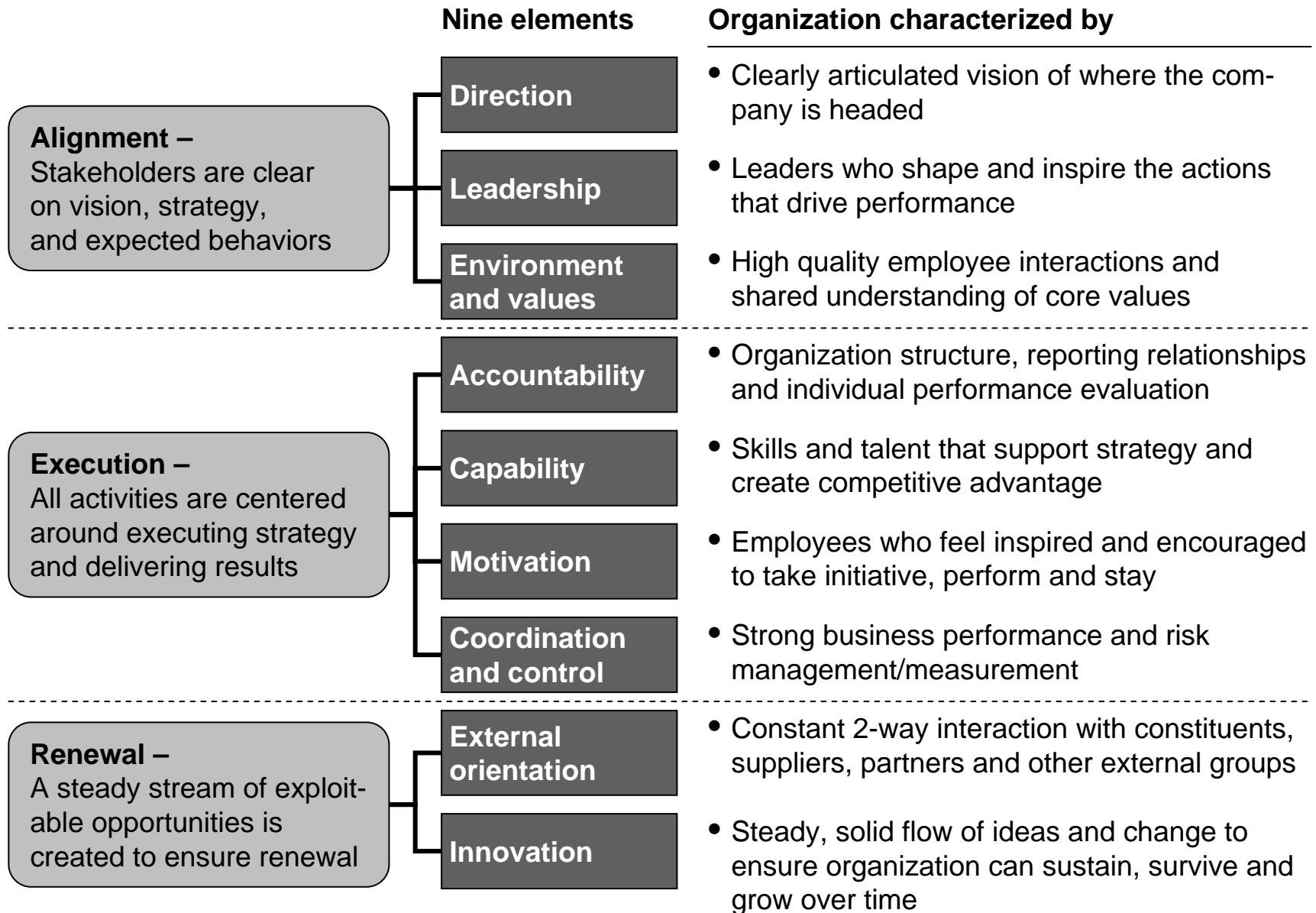
“Is the organization doing what it is supposed to in order to achieve the aligned direction? Is it doing it well and can it respond to challenges?”



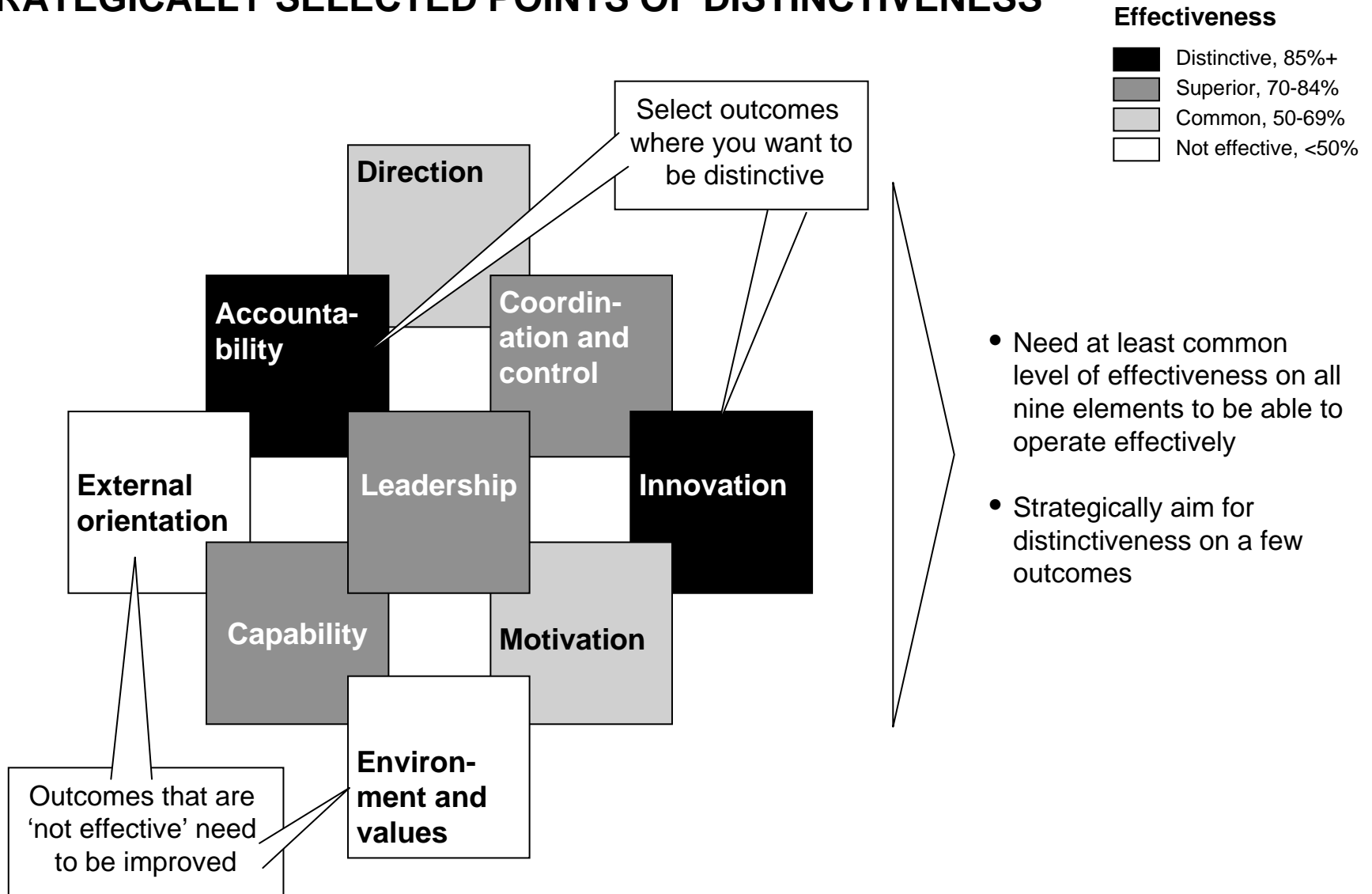
Renewal

“Is the organization continuously finding new things (and new ways to do things) that create value?”

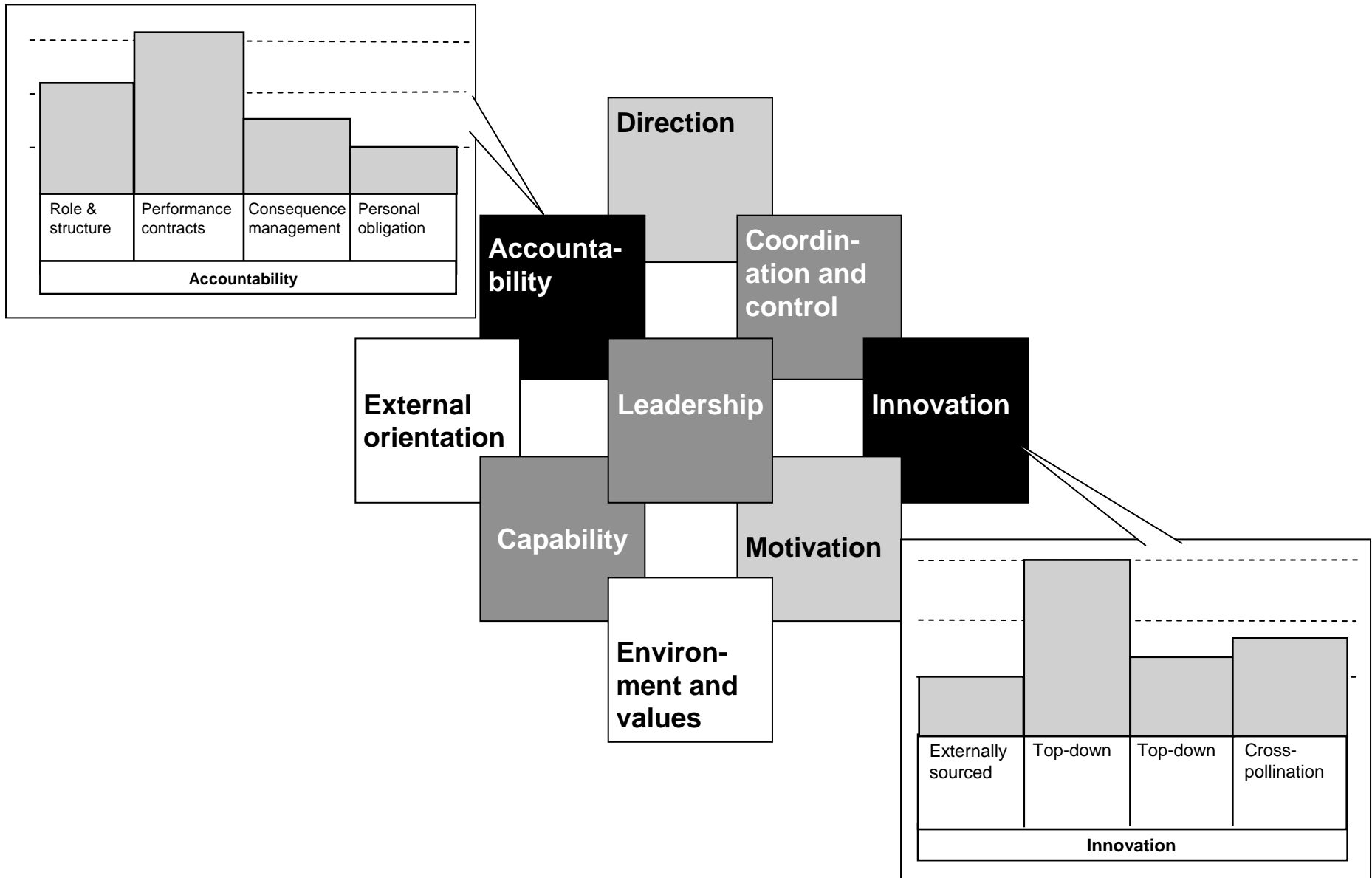
9 ELEMENTS OF HIGH PERFORMANCE ORGANIZATIONS



ALL ELEMENTS SHOULD BE AT LEAST ON A COMMON LEVEL, WITH STRATEGICALLY SELECTED POINTS OF DISTINCTIVENESS



THERE ARE SEVERAL APPROACHES OR PRACTICES FOR HOW EACH OUTCOME IS ACHIEVED



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 - **Detailed themes**
 - **Top 10 questions/Bottom 10 questions**
 - **Values survey**
 - **Survey comments**
 - **Question by question results**

THE DIAGNOSTIC RESULTS SHOW SEVERAL STRENGTHS TO BUILD ON . . .

Direct managers

- In most departments, direct managers are seen as a good role models with a deep understanding of the NCDOT
- Show empathy for employees and are seeking ways to improve moral within their departments, including asking for the ability to reward high achievers
- Results also indicate that direct managers and employees see the need to retain employees that have a long tenure with NCDOT

Desired accountability

- Respondents from all areas are seeking more accountability within NCDOT
- See sub-par performers as a real threat to the long-term success of NCDOT
- Most picked item in desired future values section was accountability
- Survey comments stress employees frustration with not holding employees accountable and reflect a strong desire for consequence management (reward strong performers and discipline weak performers)

AND INDICATE SERIOUS AREAS FOR CONCERN

Lack of vision and understanding between areas

- Results indicate an almost universal lack of understanding of NCDOT's vision and strategy, including several comments that suggested the vision has never been discussed with employees
- Lack of vision translates into a lack of shared goals, with employees expressing a lack of understanding in what the NCDOT is trying to accomplish and how their department impacts the attainment of these goals
- Uncertainty around organization's vision/goals leads different departments to follow different guidelines, ultimately leading to frustration and inefficiencies

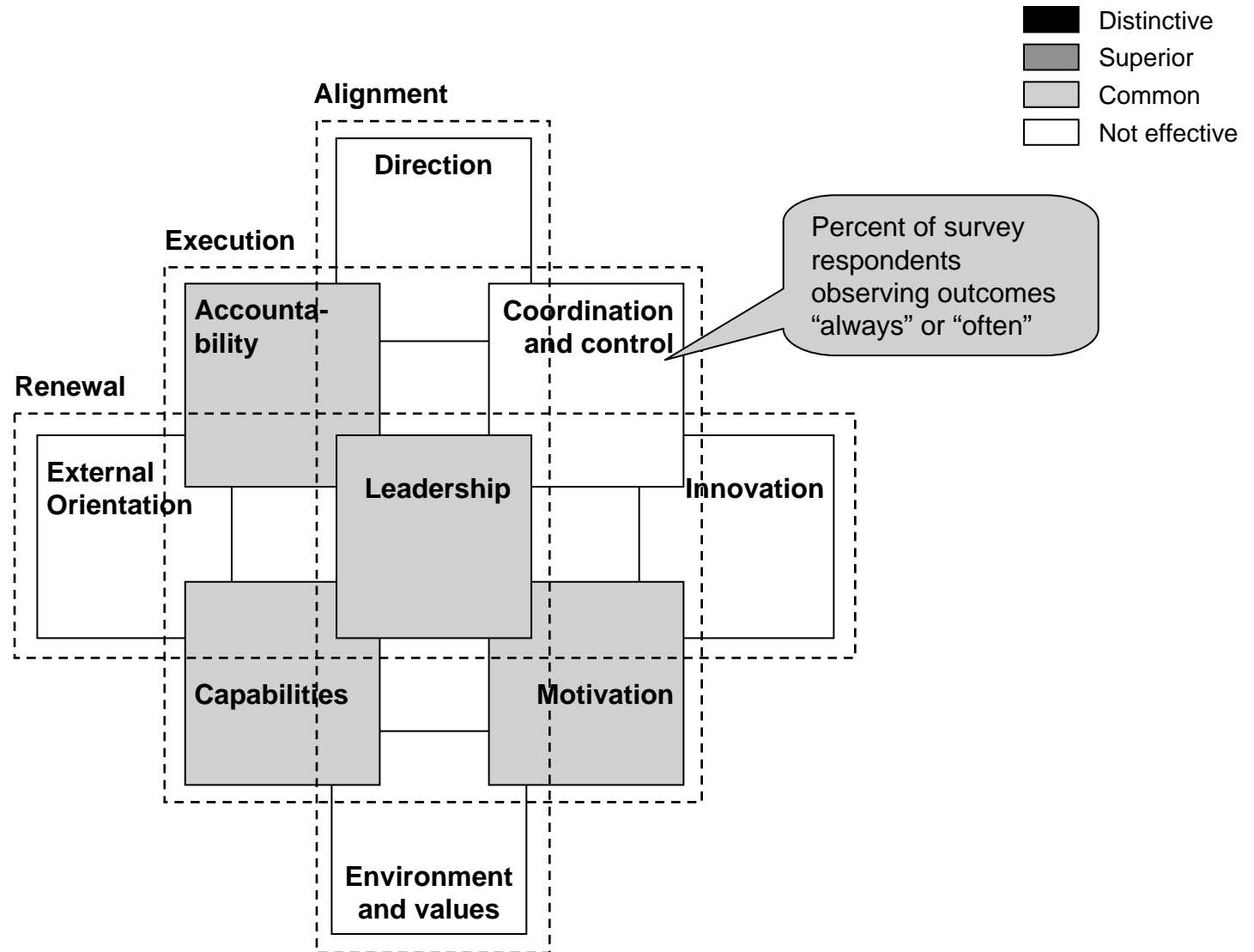
Unsupportive work environment

- Workforce with limited performance incentives
- Few practices in place to help employees develop and grow professionally (e.g., job-rotation, coaching, internal career opportunities)
- Little engagement of employees on key issues
- Current level of idea and information flow is rated ineffective and respondents indicate hesitation in making suggestions regarding improvement ideas

Poor people performance management

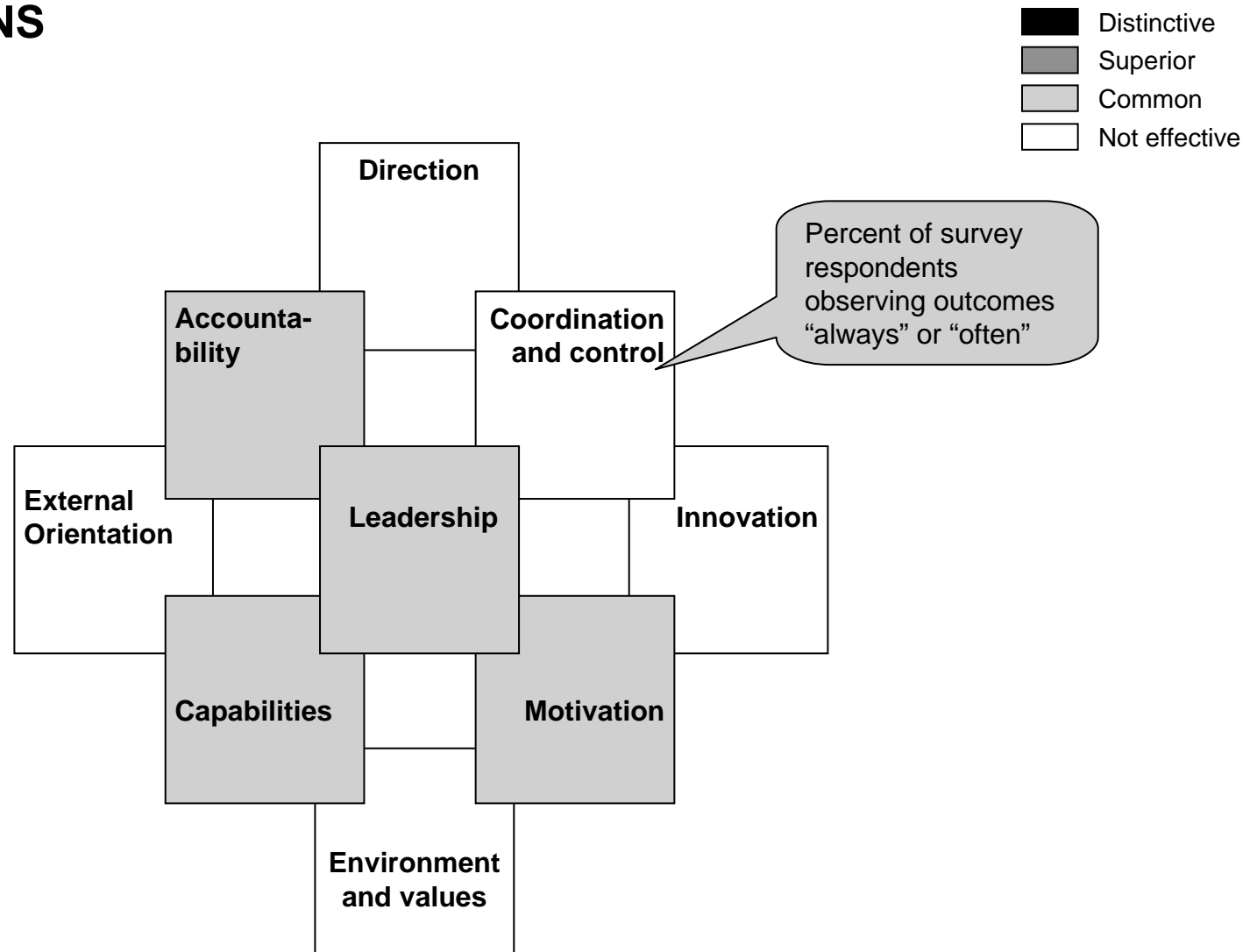
- Although employees strongly desire accountability, current systems fail to hold employees accountable
- Perceptions of current HR systems are very negative
 - Feel few distinctions are made between high, average, and low performers
 - Feel current salary assessments are inaccurate and are impacting attraction and retention
 - Managers describe a slow hiring process that forces sub-market salary offers
- Few training opportunities offered

OUTCOME PROFILE FOR ALL SURVEYS



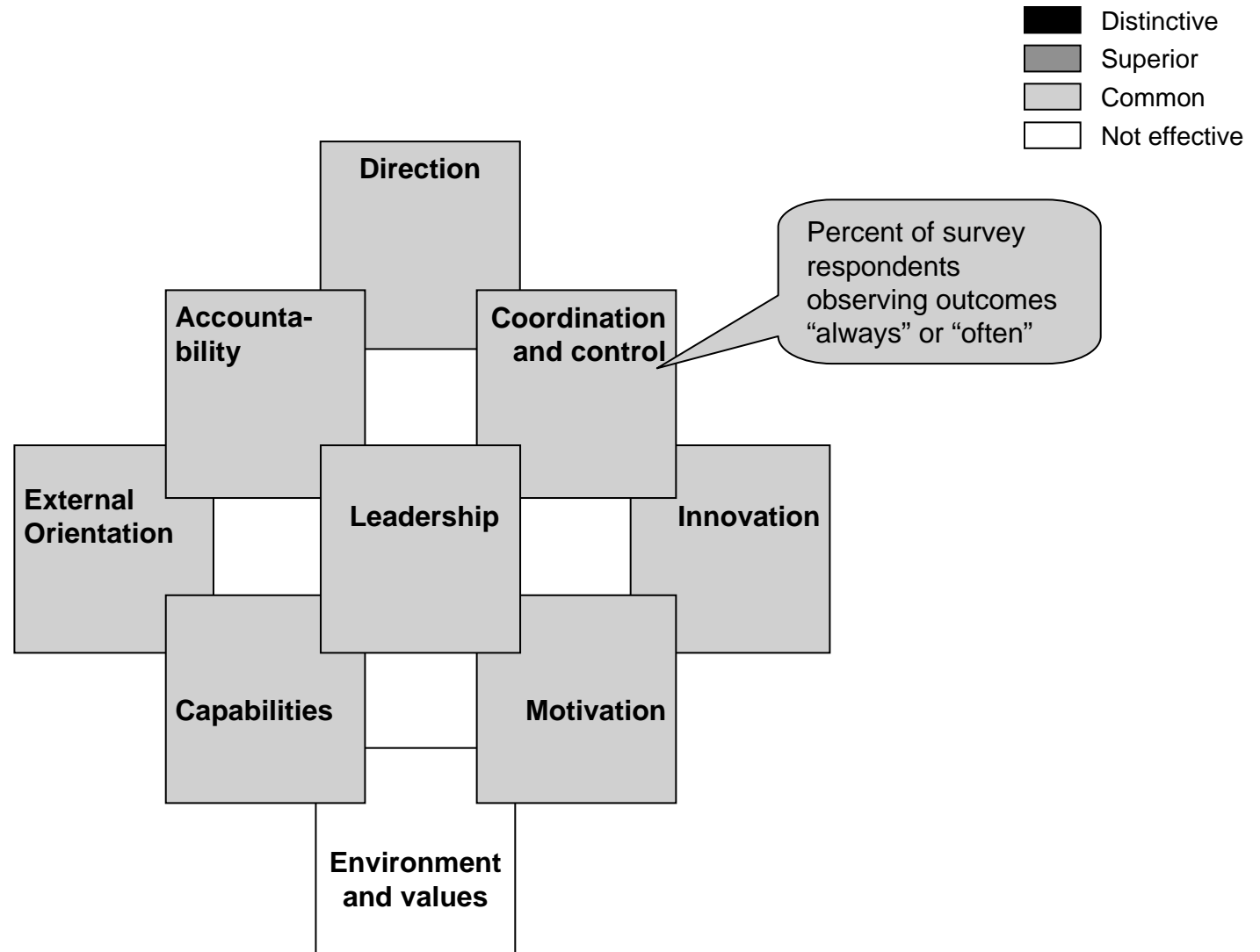
Source: Overall results from NCDOT Online + Paper OPP survey (n = 8977)

NCDOT SURVEY RESULTS SIMILAR TO OTHER PUBLIC SECTOR ORGANIZATIONS

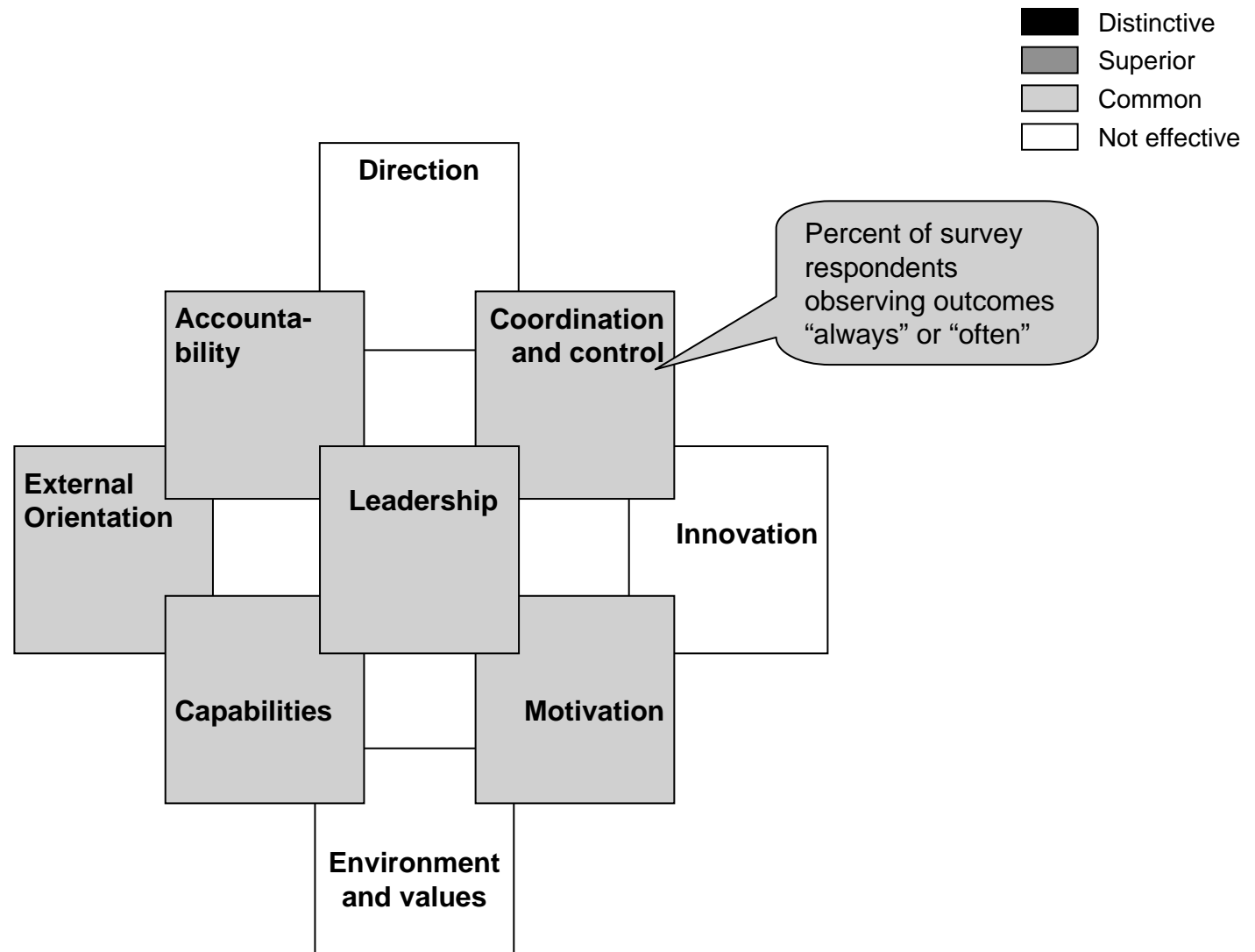


Source: McKinsey database, 8 government organizations, total n = 2000

HOWEVER, RESULTS LAG PRIVATE SECTOR ORGANIZATIONS

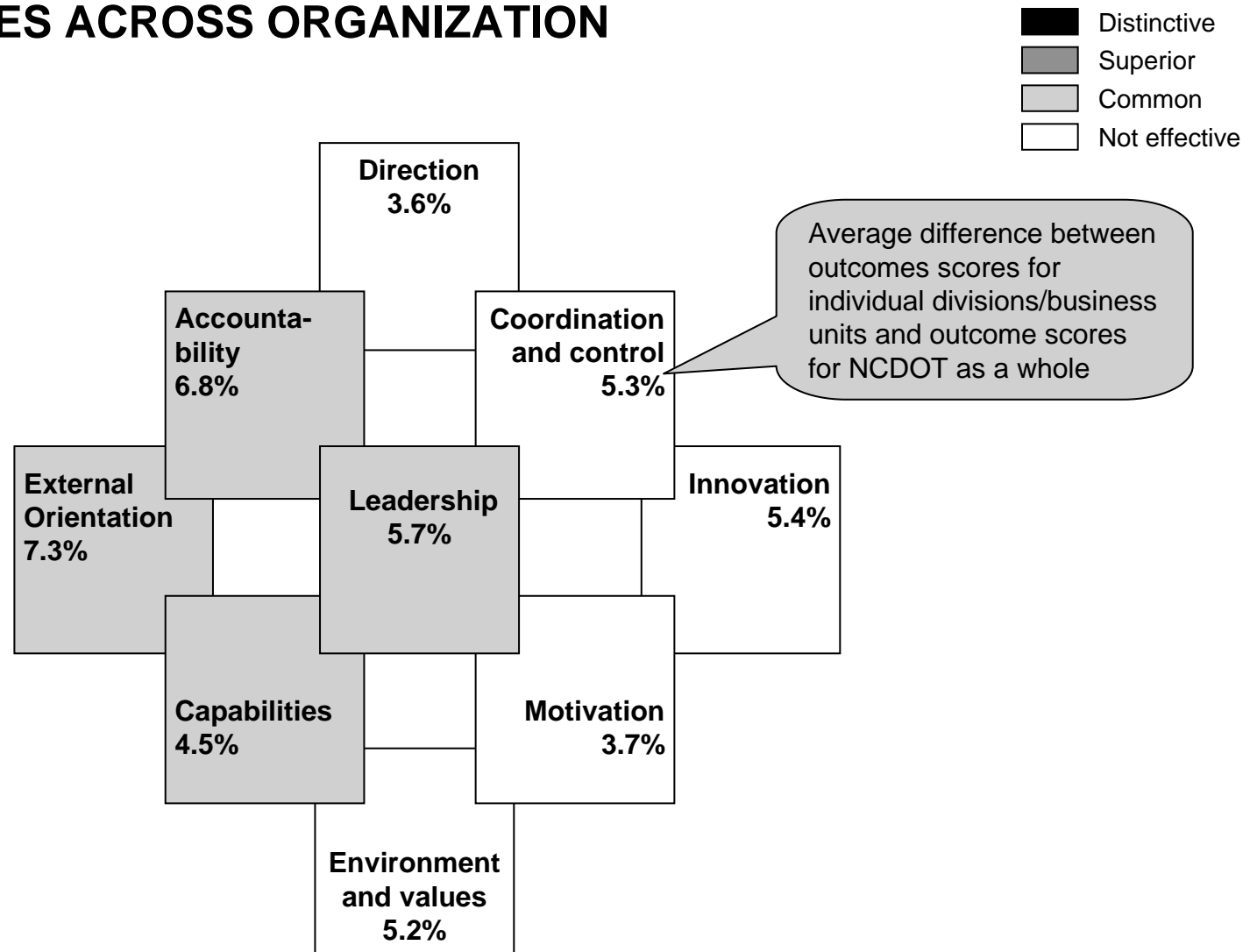


BUT SHARE SIMILARITIES WITH ENGINEERING-DRIVEN CULTURES



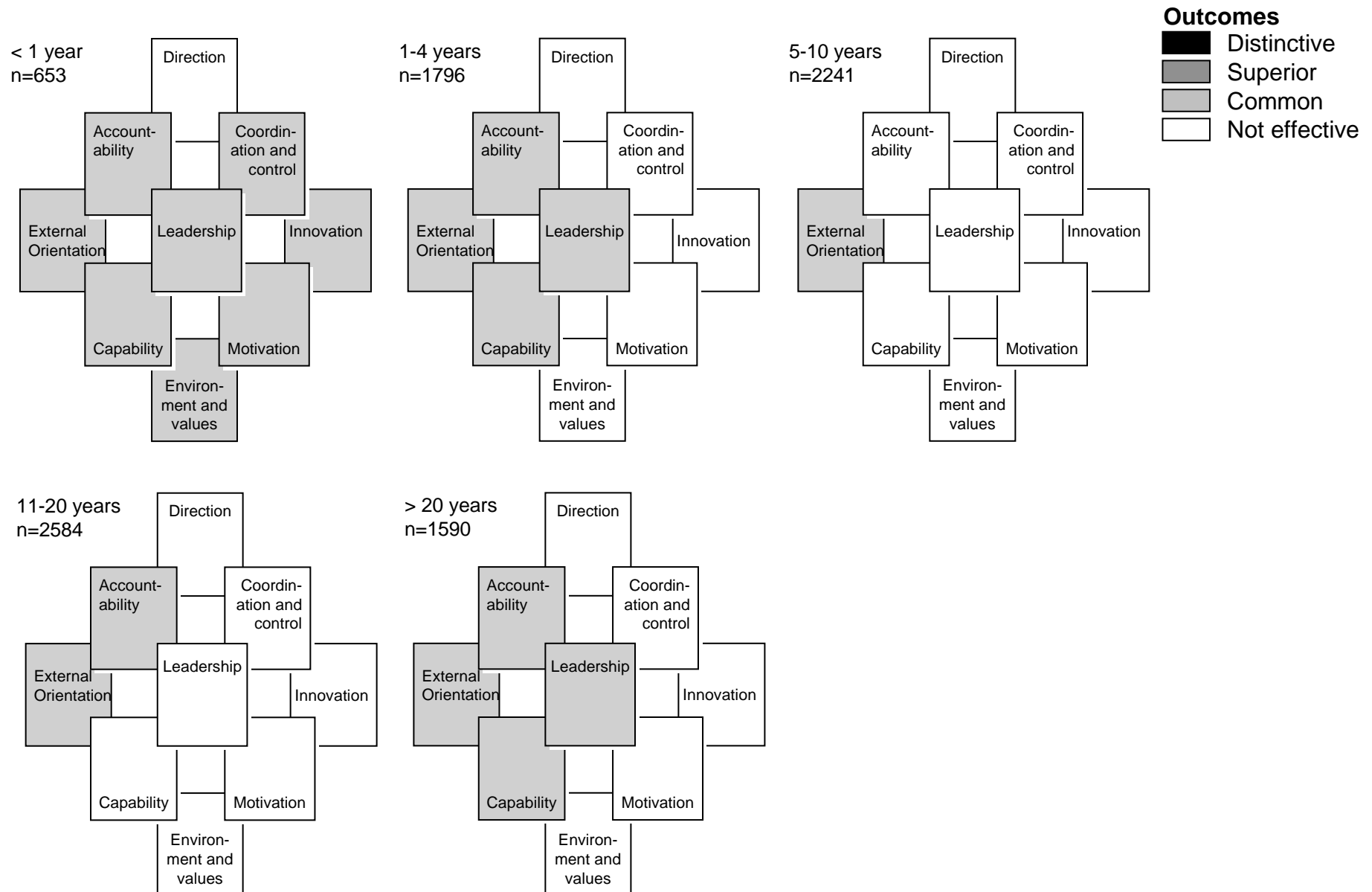
Source: McKinsey database of Chemicals, High Tech, and Transportation industry employees n = 3,362

SMALL AVERAGE DIFFERENCE IN OUTCOME SCORES SUGGESTS SIMILAR THEMES ACROSS ORGANIZATION

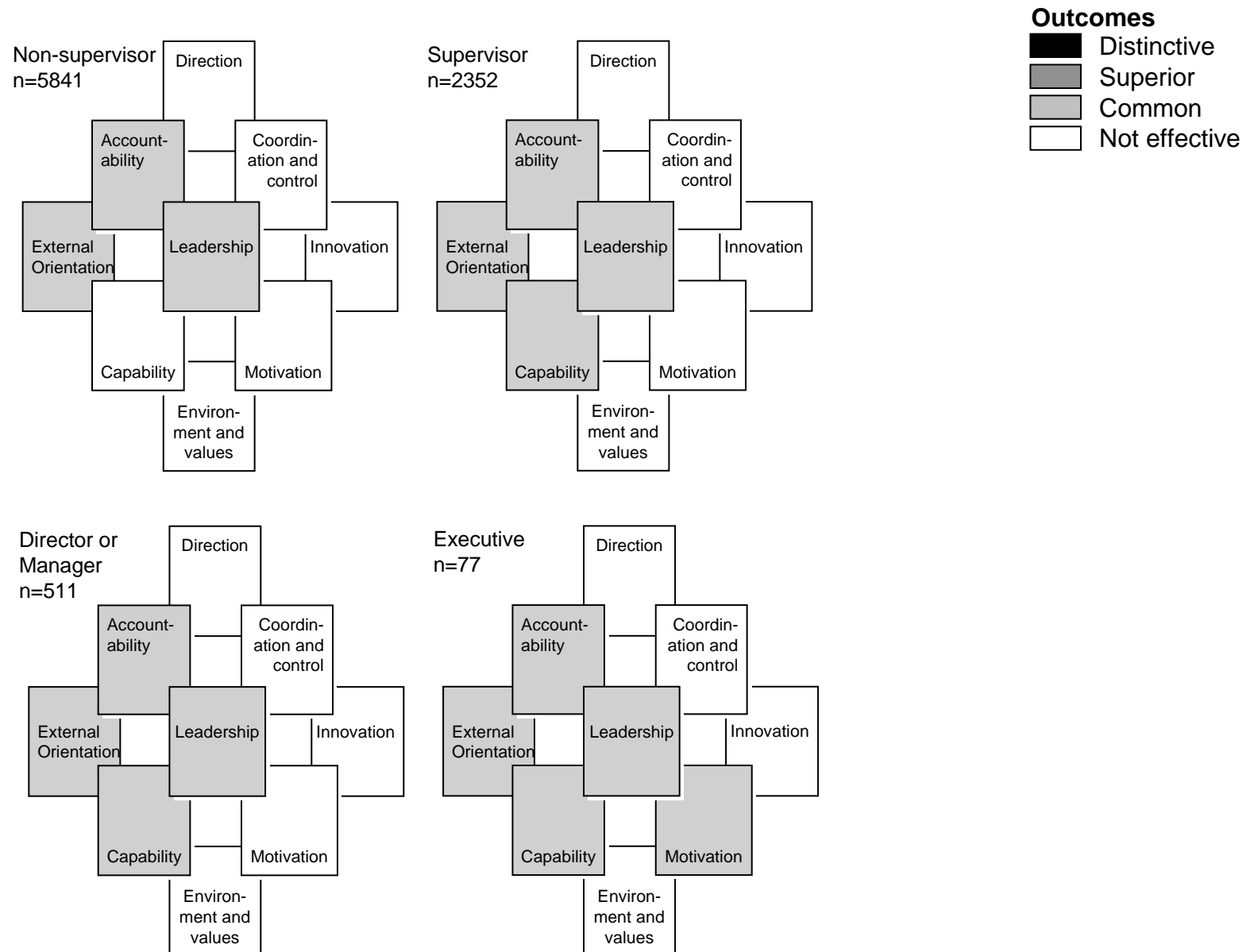


Source: Overall results from NCDOT Online OPP survey (n = 8977)

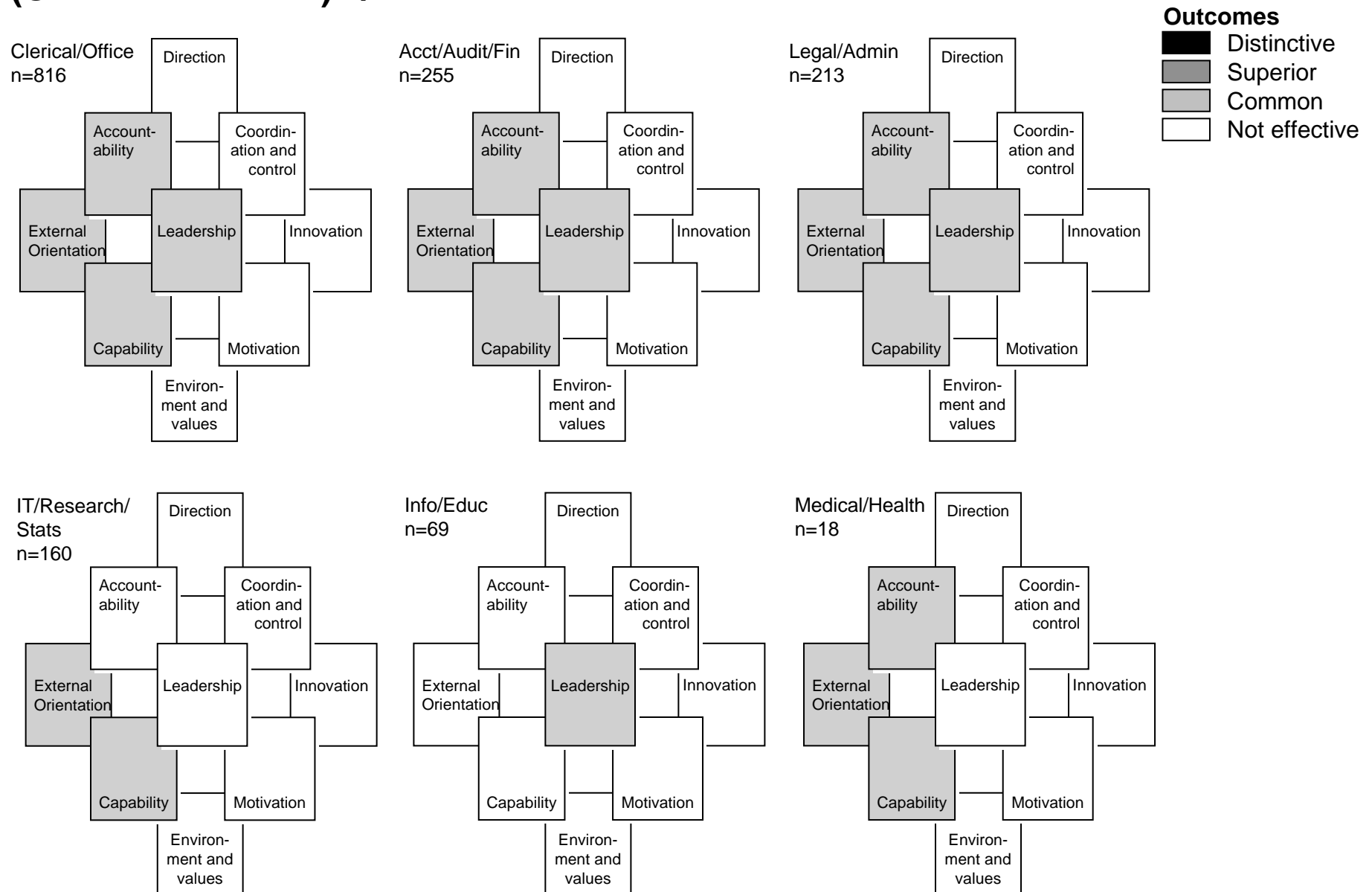
PROFILE COMPARISON BY TENURE FOR ALL SURVEYS (PAPER + ONLINE)



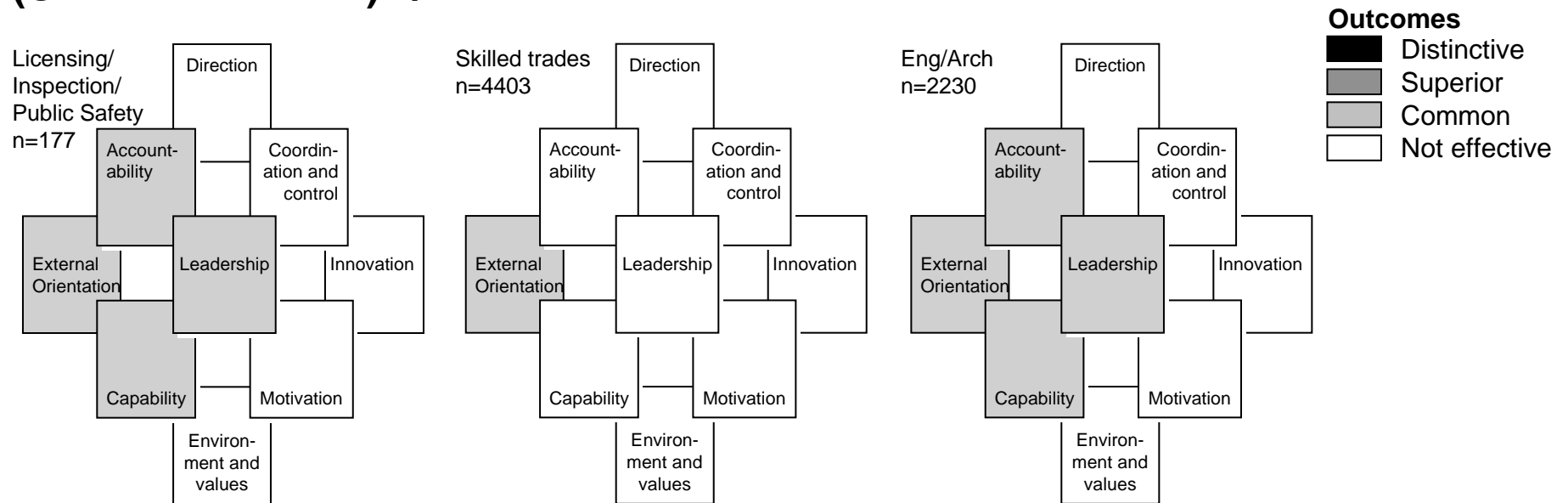
PROFILE COMPARISON BY ROLE FOR ALL SURVEYS (ONLINE + PAPER)



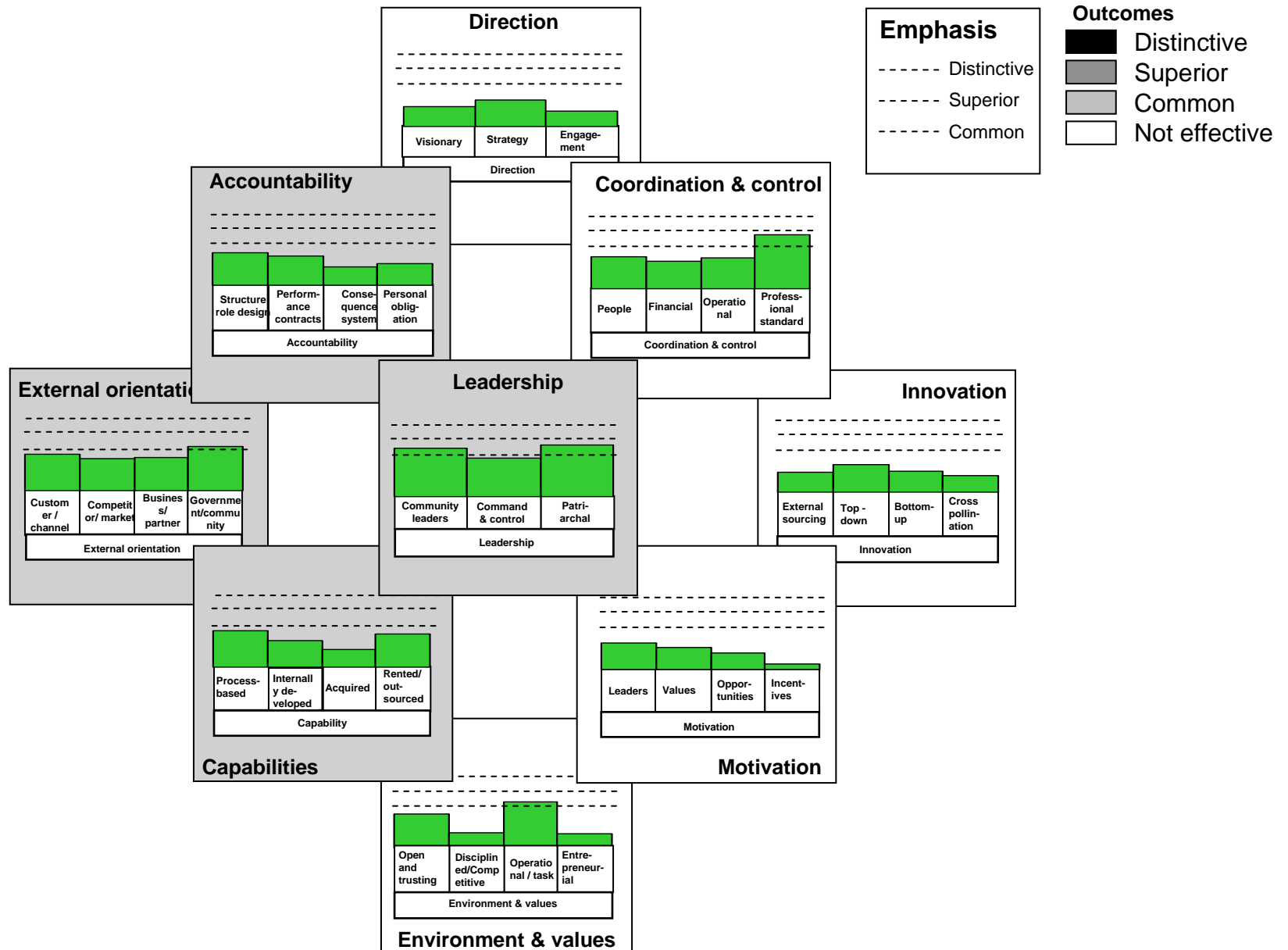
PROFILE COMPARISON BY OCCUPATIONAL GROUP FOR ALL SURVEYS (ONLINE + PAPER) 1/2



PROFILE COMPARISON BY OCCUPATIONAL GROUP FOR ALL SURVEYS (ONLINE + PAPER) 2/2

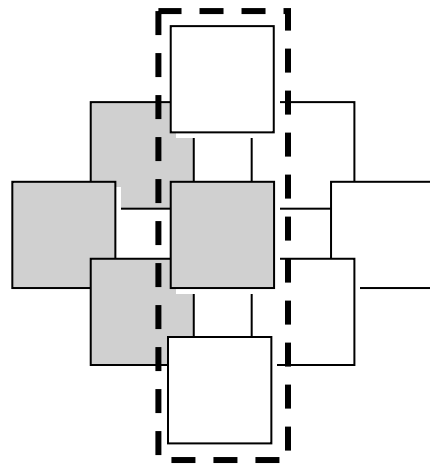


COMMON AND INEFFECTIVE OUTCOME RATINGS ARE DRIVEN BY INFREQUENT USE OF PRACTICE LEVERS

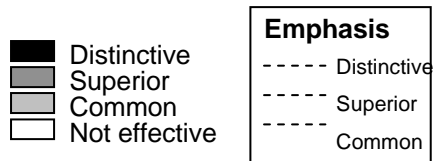


Source: Overall results from NCDOT Online OPP survey (n = 3274)

ORGANIZATION PERFORMANCE PROFILE OF PRACTICES FOR ALIGNMENT

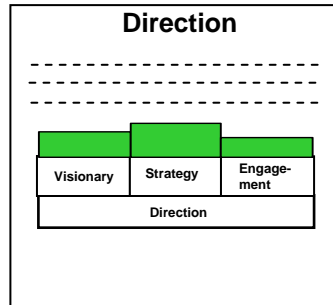


Alignment

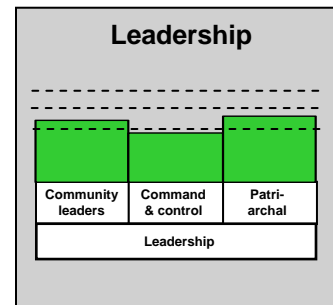


Practices

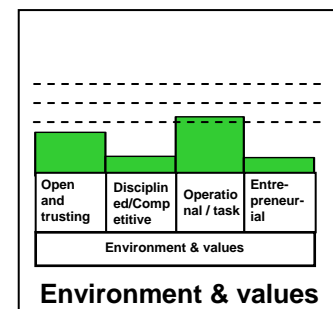
Summary of findings



- Currently rated as ineffective
- Vision for the NCDOT is unclear and not being translated into specific plans that can guide/direct employee behavior
- Little engagement of employees in direction setting process

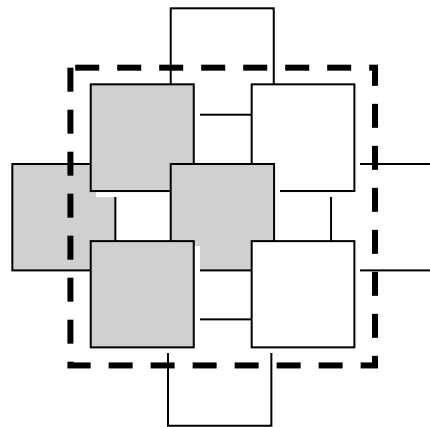


- Currently rated as common in effectiveness
- No dominant leadership style stands out, using a mixture of community (hands-off), command and control (hands-on), and patriarchal (strong but caring) leadership styles
- Direct managers are viewed positively

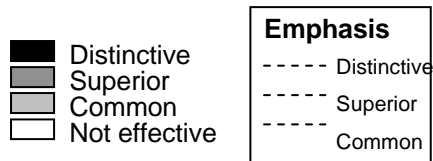


- Current culture is rated as ineffective
- Focused mainly on operational efficiency with few 'soft' elements

ORGANIZATION PERFORMANCE PROFILE OF PRACTICES FOR EXECUTION

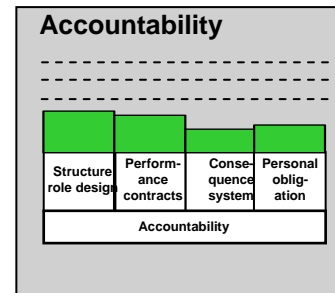


Execution

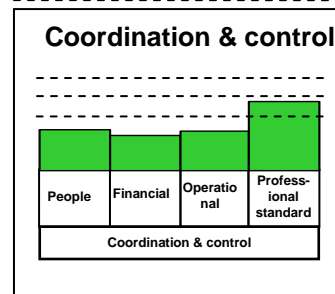


Practices

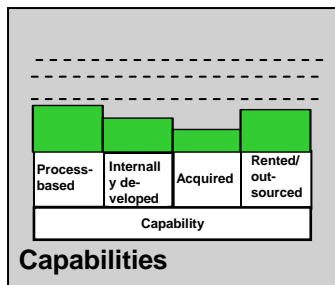
Summary of findings



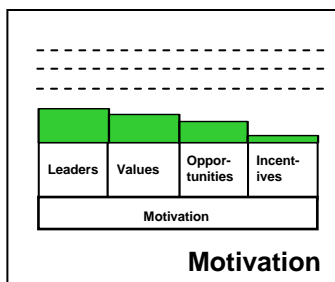
- Employees report a general understanding of what they will be held accountable for, but
- Formal job structures and performance targets do not clearly define accountabilities
- Results also indicate few links between performance and consequences



- Currently rated as ineffective
- Respondents indicate doubt in current HR system's ability to accurately collect performance data and differentiate between high, average, and low performers

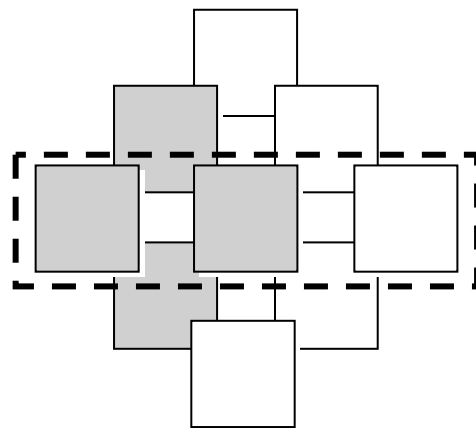


- Employees report confidence in the knowledge and capabilities currently found within the NCDOT, but
- Few practices in place to fully leverage this
- Limited efforts to codify and disseminate best practices around internal processes
- Also, few efforts made to develop internal talent (e.g., job rotation, coaching, etc)

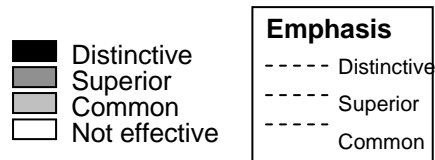


- Employees indicate personal motivation, but do not see the same level of motivation in their colleagues
- Values (which were reported as unclear in E&V) are failing to drive motivation
- Few incentives/oppts in place to increase motivation

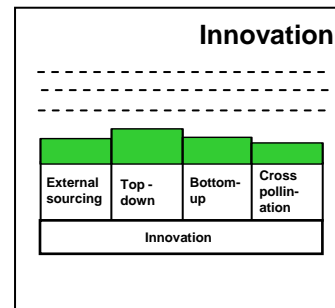
ORGANIZATION PERFORMANCE PROFILE OF PRACTICES FOR RENEWAL



Renewal

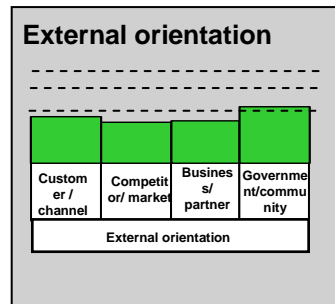


Practices



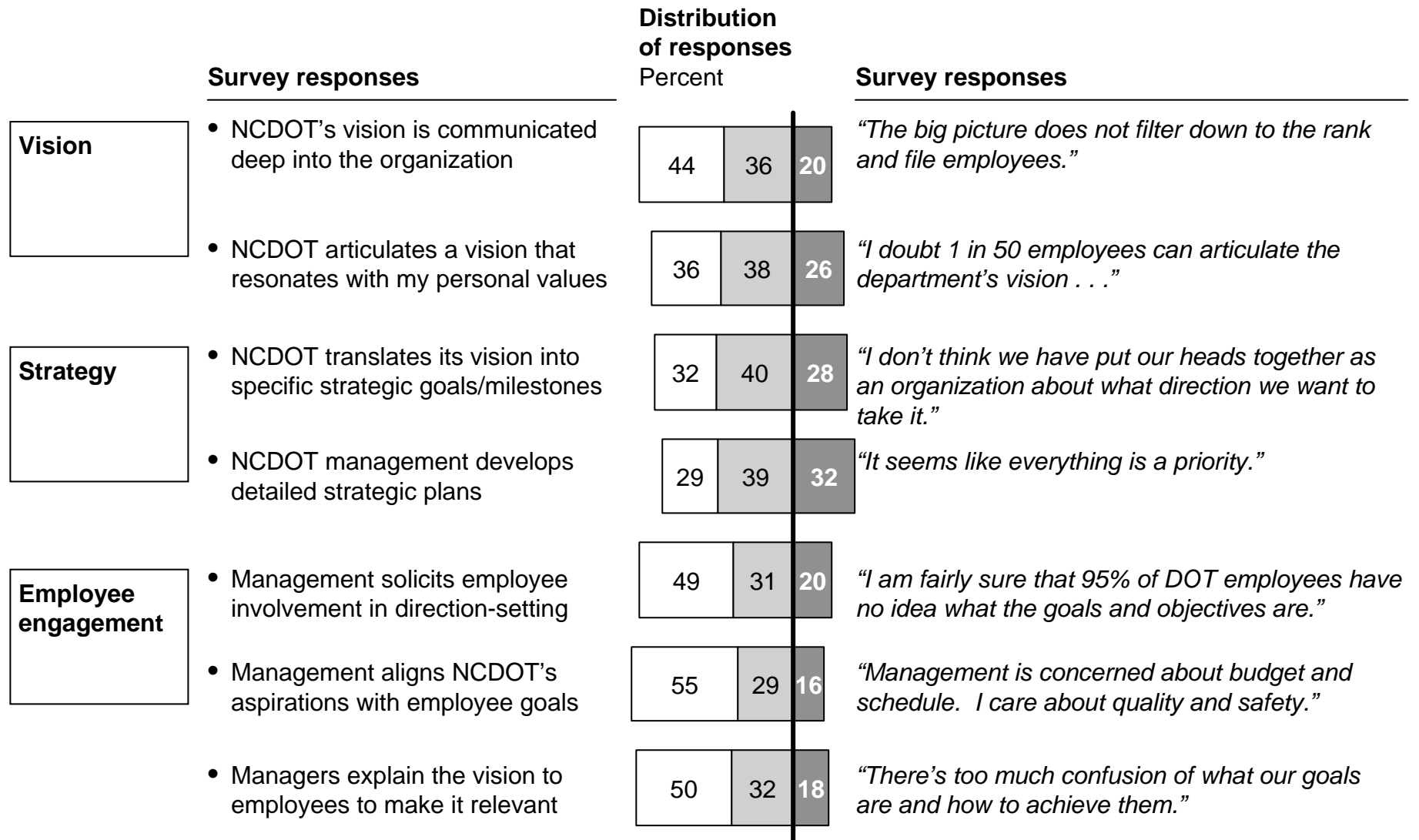
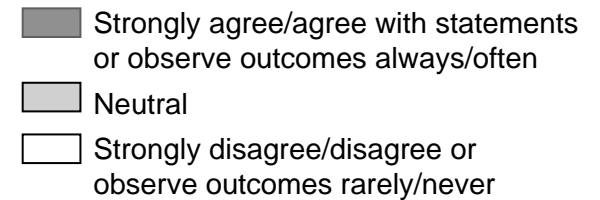
Summary of findings

- Rated as ineffective
- Failing to sustain and develop ideas/knowledge
- Little engagement and support of employees to share improvement ideas with management or other parts of the company
- Few meetings for management to discuss how things could be done differently

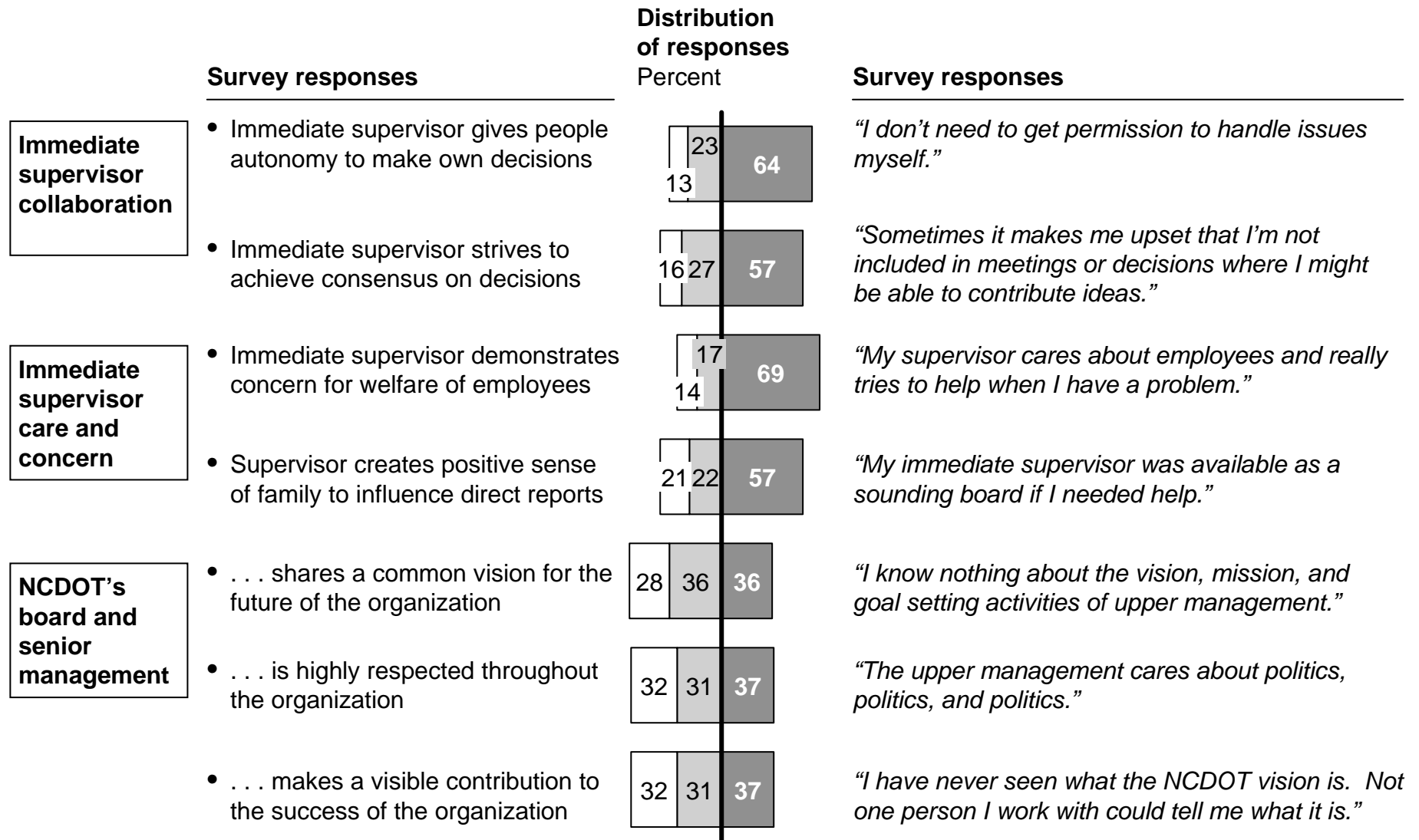
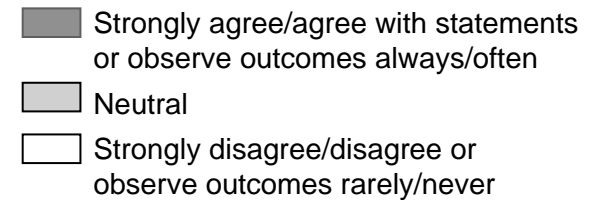


- Highest rated element
- Some efforts made to respond to the public and other external bodies

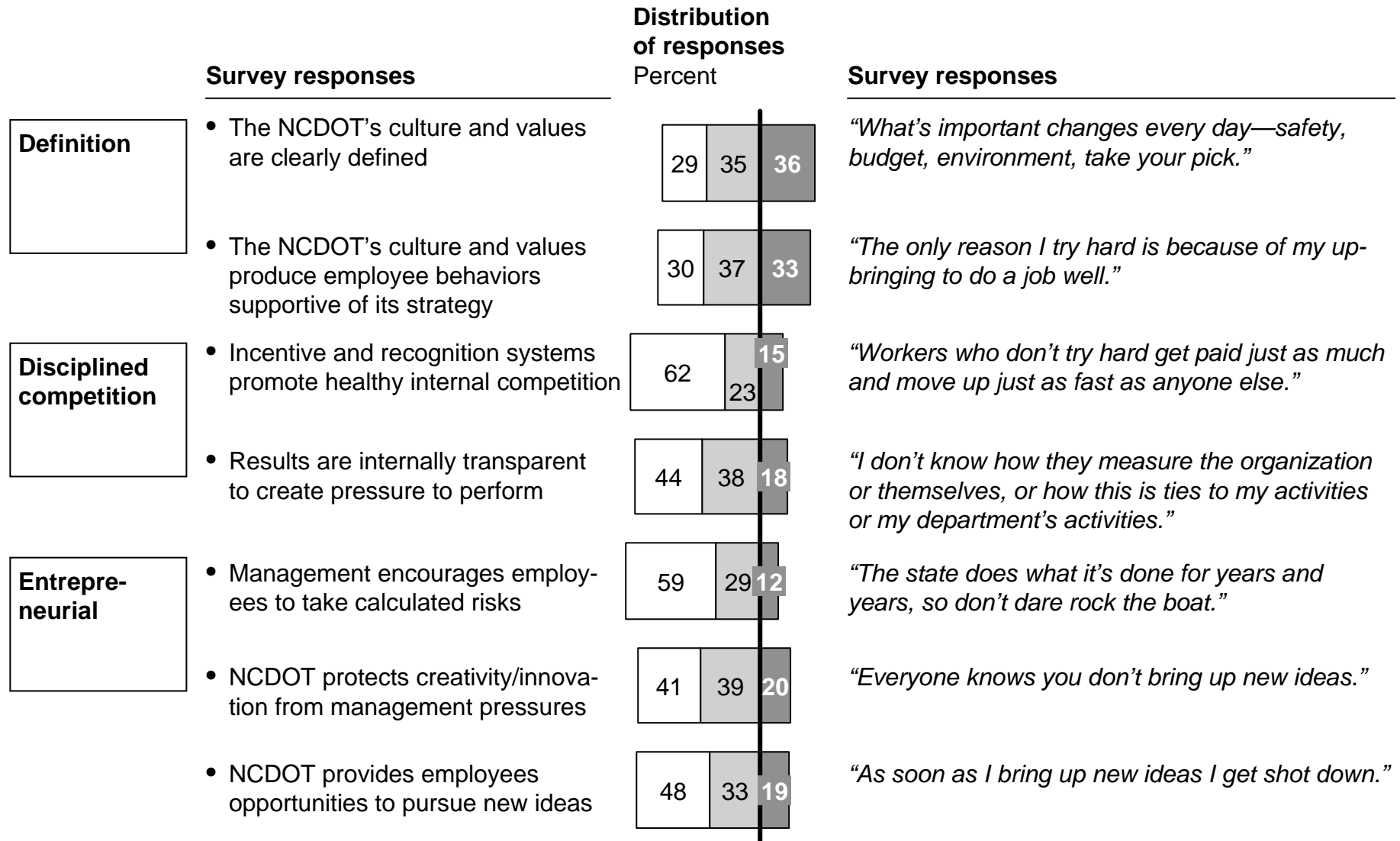
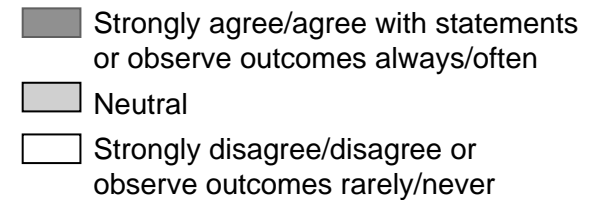
ALIGNMENT– DIRECTION



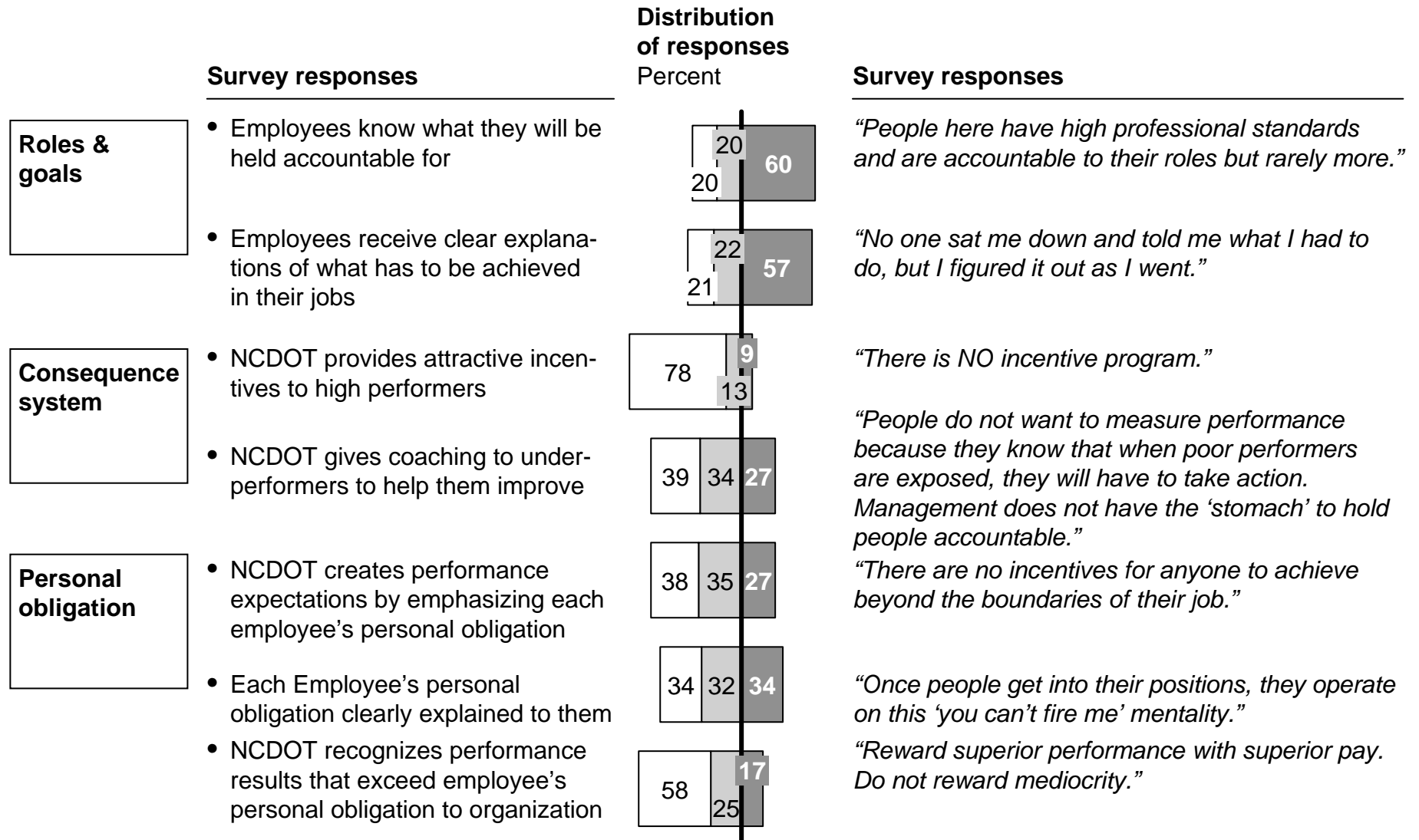
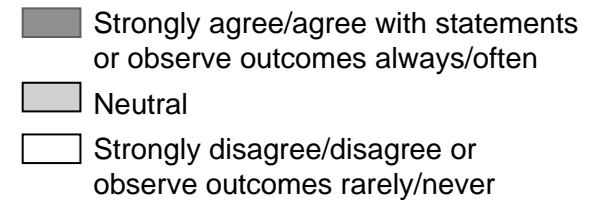
ALIGNMENT– LEADERSHIP



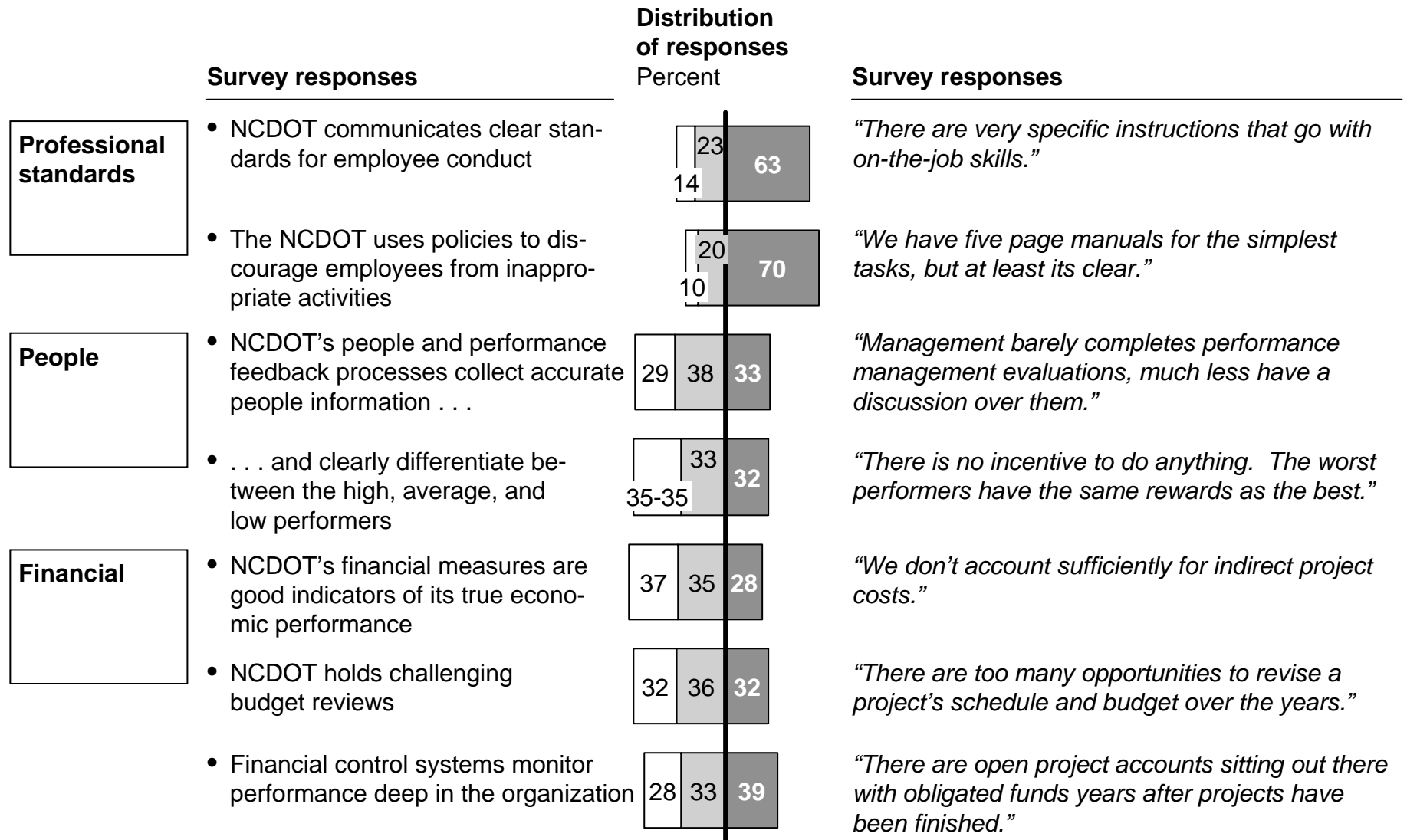
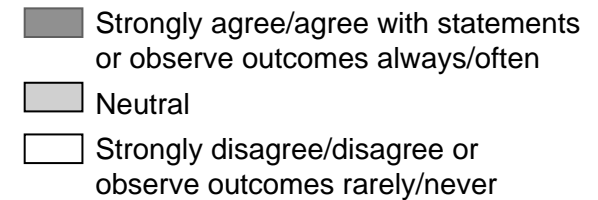
ALIGNMENT– ENVIRONMENT & VALUES



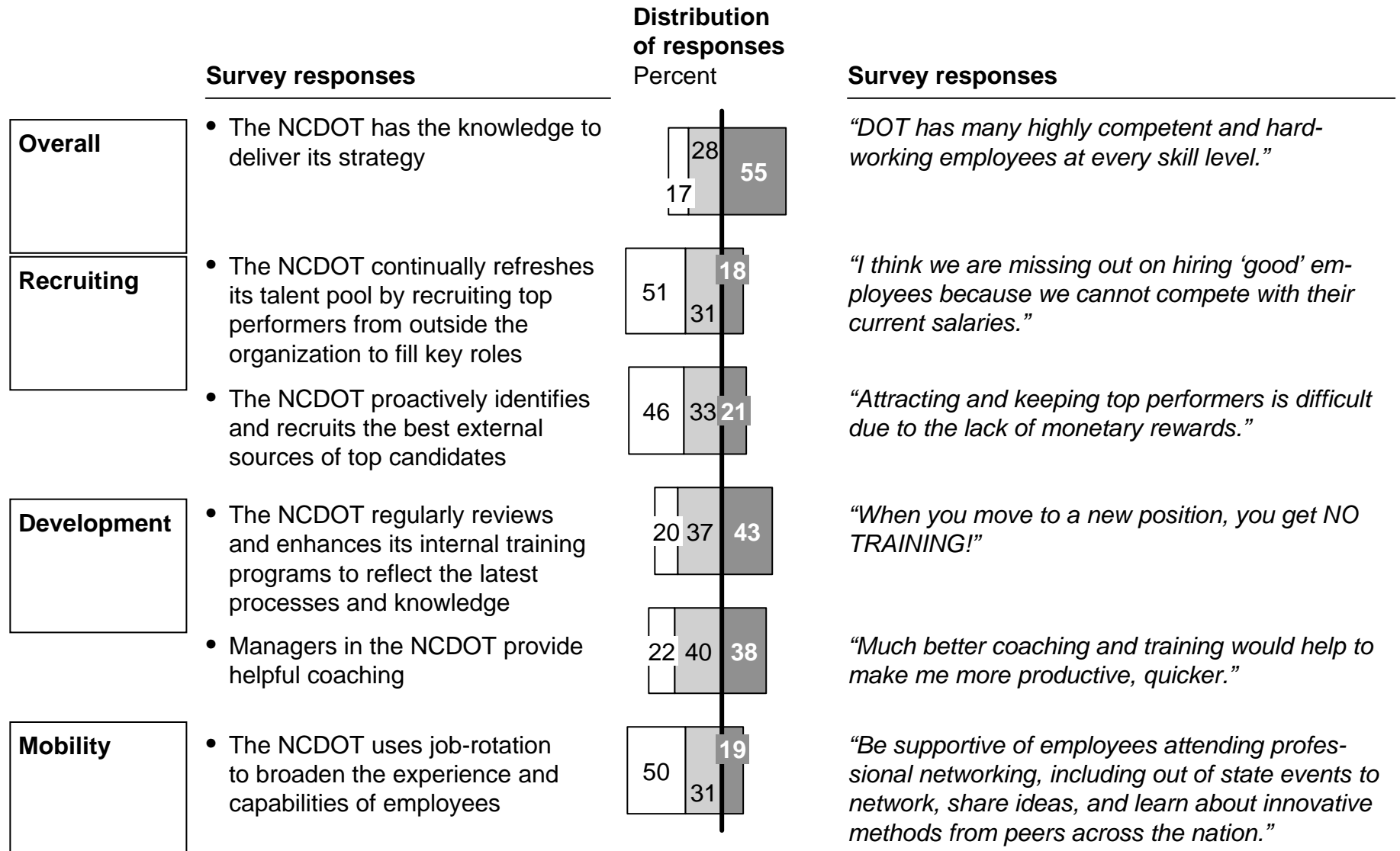
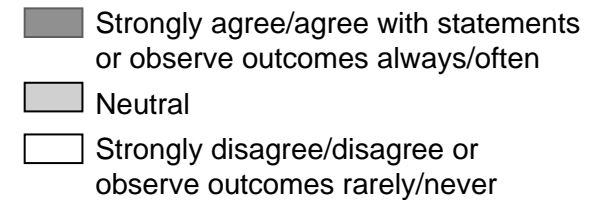
EXECUTION – ACCOUNTABILITY



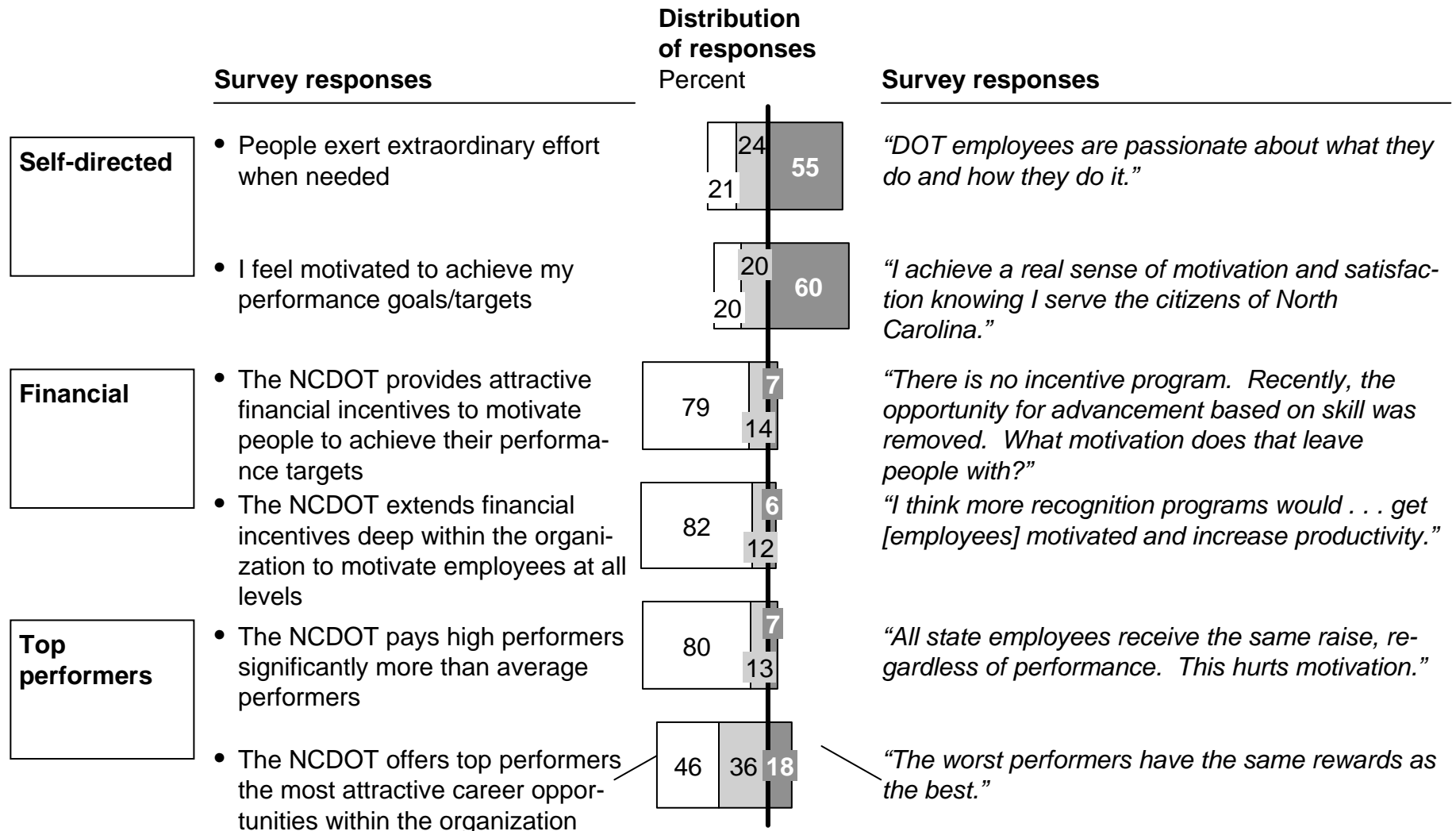
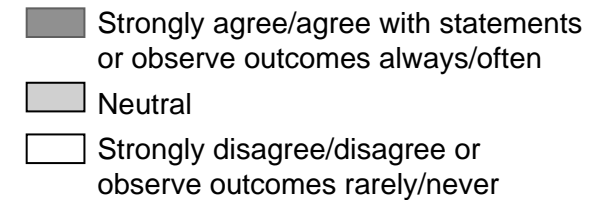
EXECUTION – COORDINATION & CONTROL



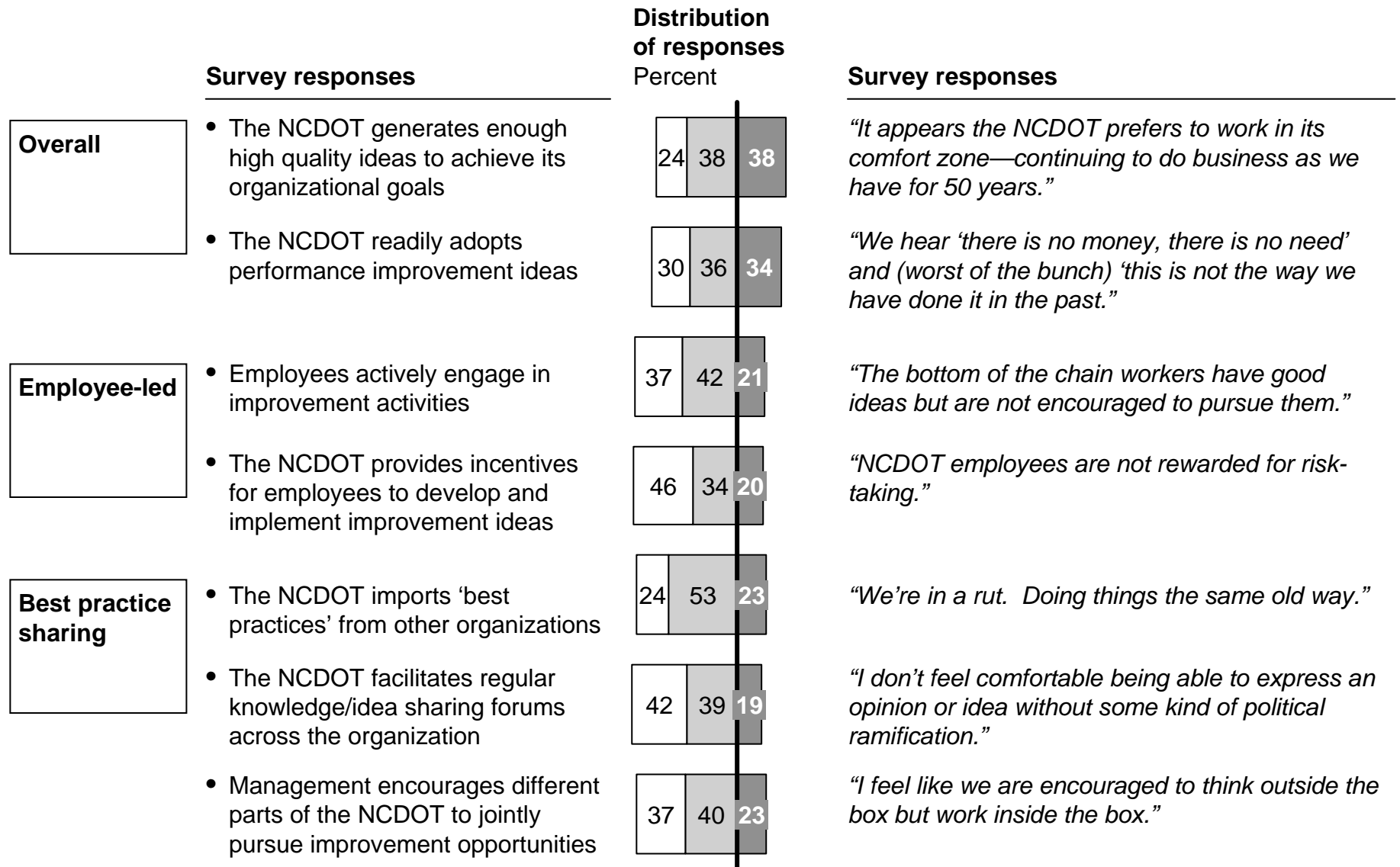
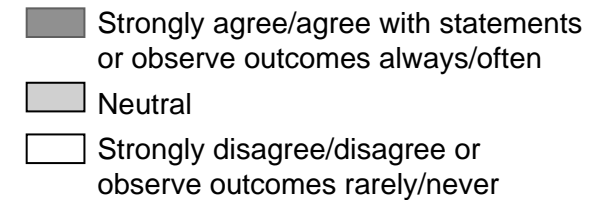
EXECUTION – CAPABILITIES



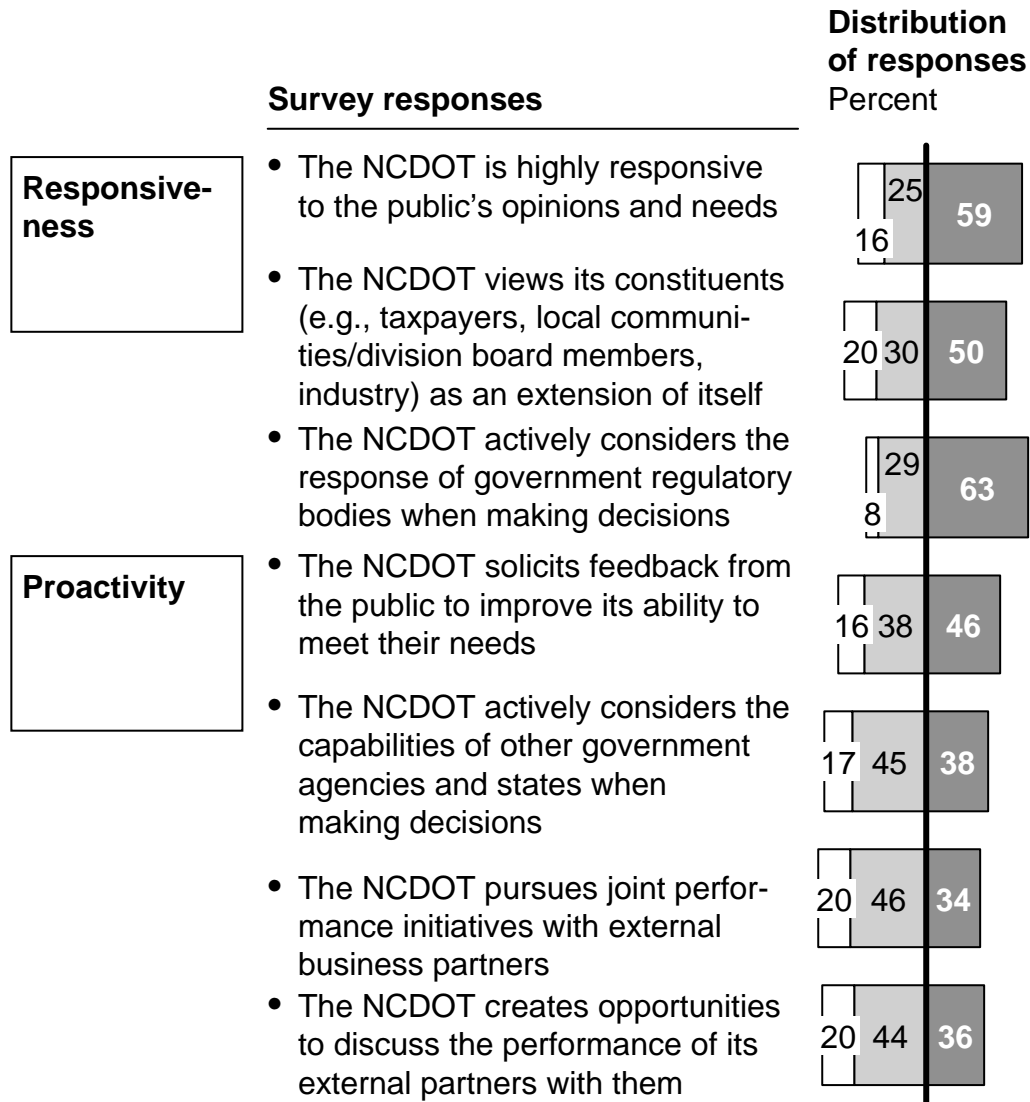
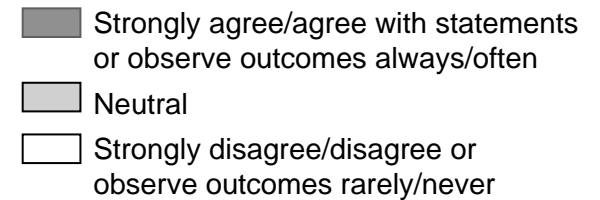
EXECUTION – MOTIVATION



RENEWAL – INNOVATION



RENEWAL – EXTERNAL ORIENTATION



Survey responses

"When media stories break out, I am usually told to drop everything and quickly prepare a response."

"I am a taxpayer of North Carolina too, so I feel like I am serving myself and my family."

"The political layer of management holds a lot of authority in the DOT's higher leadership."


"We care very deeply about what the public has to say and we have gotten a lot better about listening to their concerns."

"We need to align the way we operate and handle personnel issues with other state agencies."

"Contractors know the gaps in the system and how to exploit them."


"Once they have won the bid, contractors establish prices and timelines as needed."

QUESTIONS WITH THE MOST POSITIVE RESPONSES FROM NCDOT RELATE PRIMARILY TO DIRECT MANAGERS

 Most positive questions relate to direct managers

MOST POSITIVE RESPONSES FROM NCDOT EMPLOYEES	NEG	NEU	POS
The manager I report to has a deep understanding of the NCDOT	9%	17%	74%
The manager I report to maintains constructive relationships with his/her direct reports	13%	16%	71%
The manager I report to makes decisions in a timely manner	15%	15%	70%
The NCDOT uses policies and procedures to discourage employees from engaging in inappropriate activities (e.g. formal codes of conduct, rule books)	10%	20%	70%
The manager that I report to provides a good role model for me to follow	15%	15%	70%
Employees in the NCDOT know what they will be held accountable for	15%	16%	69%
The NCDOT is highly responsive to the public's opinions and needs	10%	21%	69%
The manager I report to demonstrates concern for the welfare of employees	14%	17%	69%
The manager I report to makes high quality decisions	13%	18%	69%
The NCDOT has the knowledge to deliver its strategy	10%	23%	67%

QUESTIONS WITH THE LEAST POSITIVE RESPONSES FROM NCDOT RELATE PRIMARILY TO MOTIVATING EMPLOYEES

 Least positive questions relate to motivation

LEAST POSITIVE RESPONSES FROM NCDOT EMPLOYEES	NEG	NEU	POS
The NCDOT extends financial incentives deep within the organization to motivate employees at all levels	82%	12%	6%
The NCDOT provides attractive financial incentives to motivate people to achieve their performance targets	79%	14%	7%
The NCDOT pays high performers significantly more than average performers	80%	13%	7%
The NCDOT provides attractive incentives to high performing employees	78%	13%	9%
Management encourages employees to take calculated risks	59%	29%	12%
The NCDOT's incentive and recognition systems promote healthy competition among employees	62%	23%	15%
Management aligns the NCDOT's aspirations with the personal goals of employees	55%	29%	16%
The NCDOT recognizes performance results that exceed an employee's personal obligation to the organization	58%	25%	17%
The NCDOT designs jobs to be as stimulating as possible for all employees	43%	40%	17%
The NCDOT offers top performers the most attractive career opportunities within the organization	46%	36%	18%

THE SURVEY ALSO ASKED EMPLOYEES ABOUT THE VALUES THEY SEE IN NCDOT'S CURRENT CULTURE AND IN THE CULTURE THEY DESIRE

Top 10 values selected by respondents

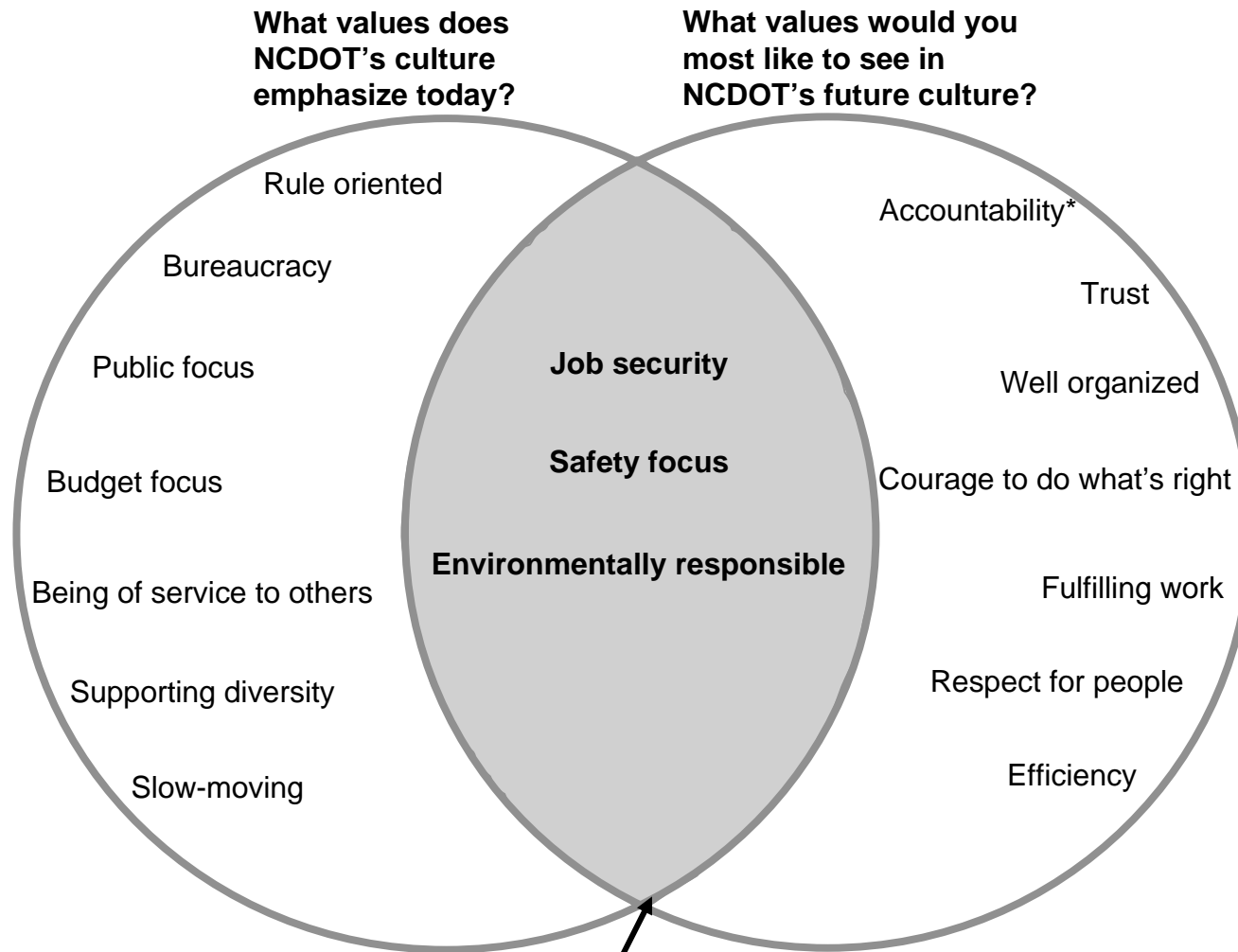
What values does NCDOT's culture emphasize today?	What values would you most like to see in NCDOT's future culture?	What values are missing from NCDOT's culture today?	What values would you least like to see in NCDOT's future culture?
Rule oriented	Accountability*	Employee focus	Arrogant
Bureaucracy	Trust	Personal growth	Fear
Public focus	Well organized	Stress	Stress
Budget focus	Courage to do what's right	Professional growth	Internal politics
Being of service to others	Fulfilling work	Fear	Conflict
Supporting diversity	Respect for people	Arrogant	Inconsistency
Slow-moving	Efficiency	Efficiency	Lack of shared purpose
Job security	Job security	Well organized	Hierarchical
Safety focus	Safety focus	Trust	Bureaucracy
Environmentally responsible	Environmentally responsible	Respect for people	Slow-moving

* Most picked item in desired organization

Source: Overall results from NCDOT Online Values survey (n = 3274)

RESULTS FROM THE VALUES SURVEY REVEALS LITTLE OVERLAP BETWEEN THE CURRENT AND THE DESIRED CULTURES

Top 10 values selected by respondents



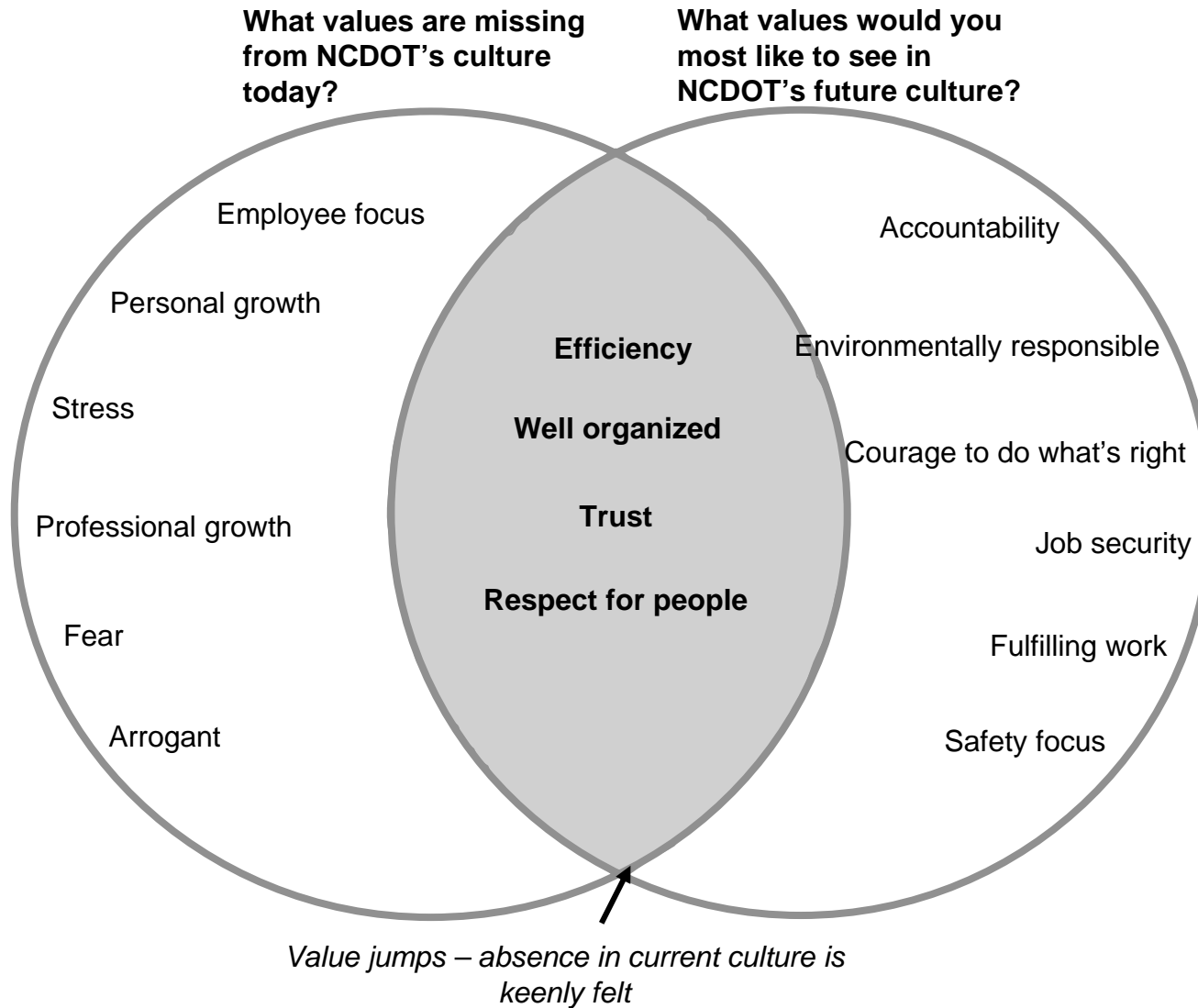
Overlap between current and desired best culture indicates strengths in the current culture that should continue

* Most picked item in desired organization

Source: Overall results from NCDOT Online Values survey (n = 3274)

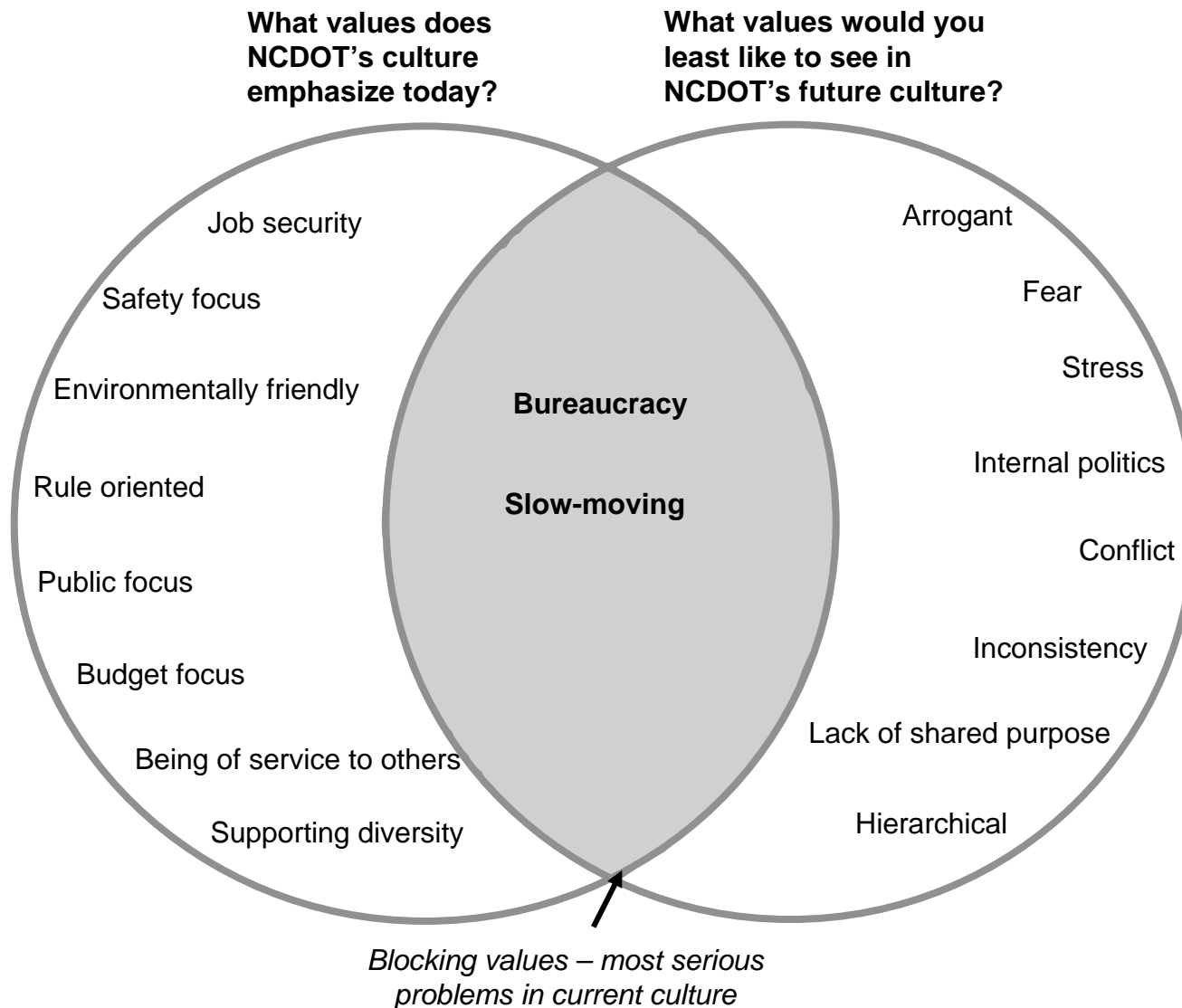
RESULTS INDICATE A STRONG DESIRE TO BE BETTER ORGANIZED AND MORE PEOPLE FRIENDLY

Top 10 values selected by respondents*



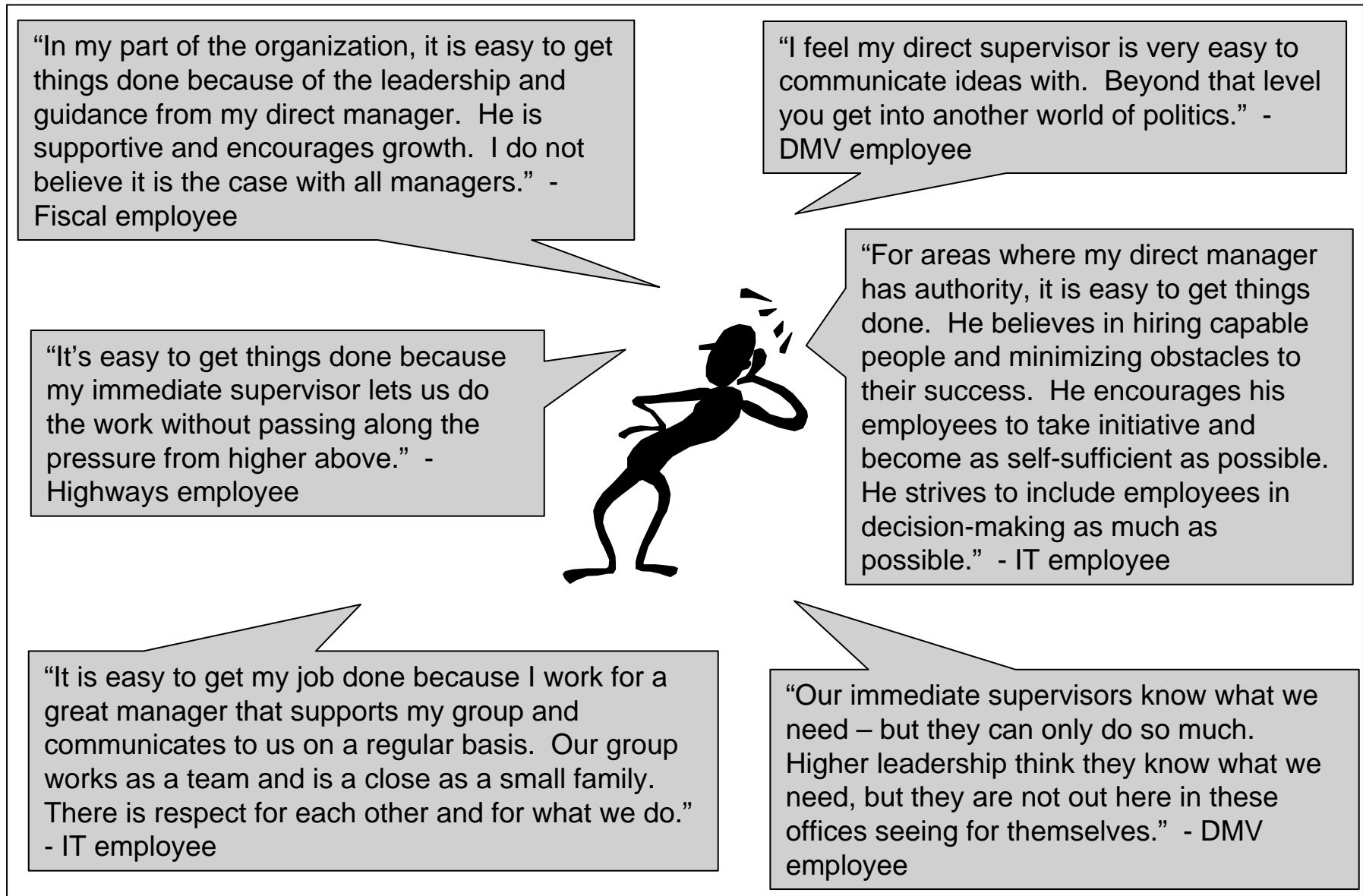
RESULTS INDICATE THE BUREAUCRATIC AND SLOW-MOVING NATURE OF THE NCDOT ARE ACTING AS BARRIERS

Top 10 values selected by respondents

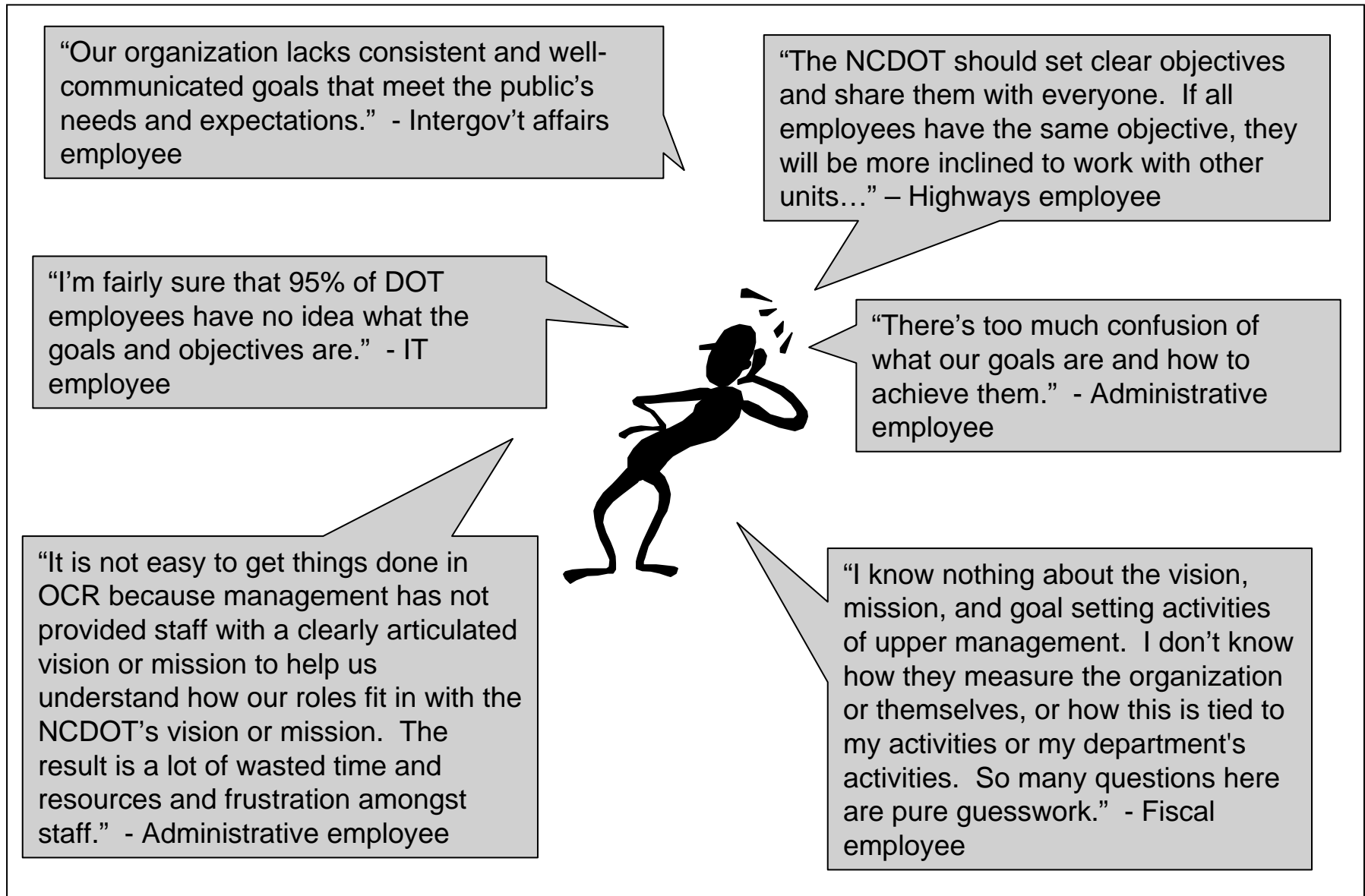


Source: Overall results from NCDOT Online Values survey (n = 3274)

SURVEY COMMENTS EMPHASIZE THE CARE AND RESPECT SHOWN BY DIRECT MANAGERS...



BUT ALSO DESCRIBE SEVERAL AREAS OF CONCERN INCLUDING: A LACK OF VISION AND DISCONNECT BETWEEN DIFFERENT AREAS (1/3)



BUT ALSO DESCRIBE SEVERAL AREAS OF CONCERN INCLUDING: A LACK OF VISION AND DISCONNECT BETWEEN DIFFERENT AREAS (2/3)

"I have never even seen what the NCDOT vision is. It was discussed while I was doing this survey and not one person that I talked to could tell me what it is." - Transit employee

"The big picture of the DOT does not filter down to the rank and file employees." - Highways employee

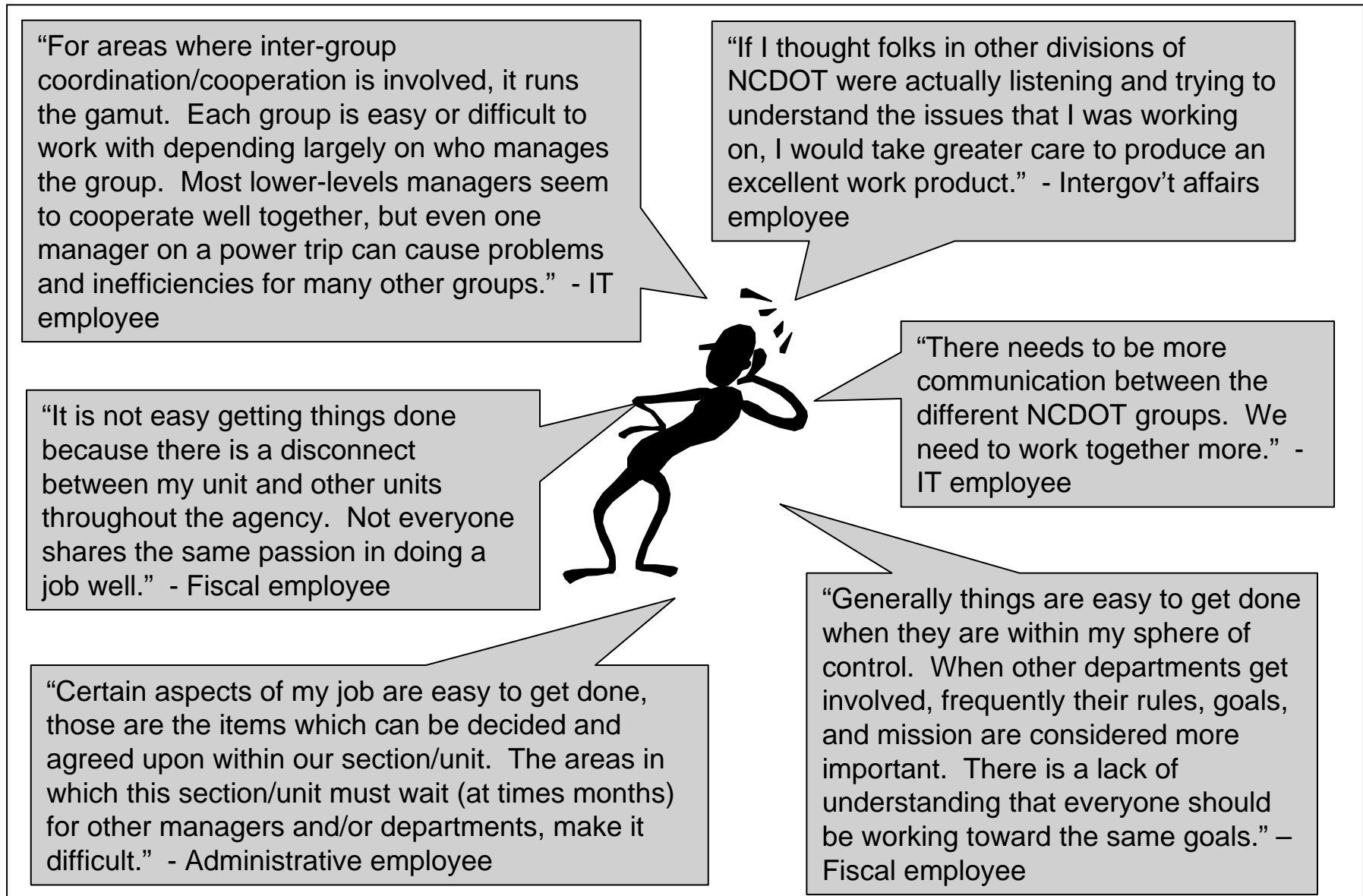
"I doubt 1 in 50 employees can articulate the department's vision or any strategies. Whatever comes out of this study should be communicated thoroughly to the staff, and not just in email. It needs to be sold to them and managers need to be instructed how performance, behavior, goals, etc. can be established that relate back to the department's vision/strategies." - Fiscal employee



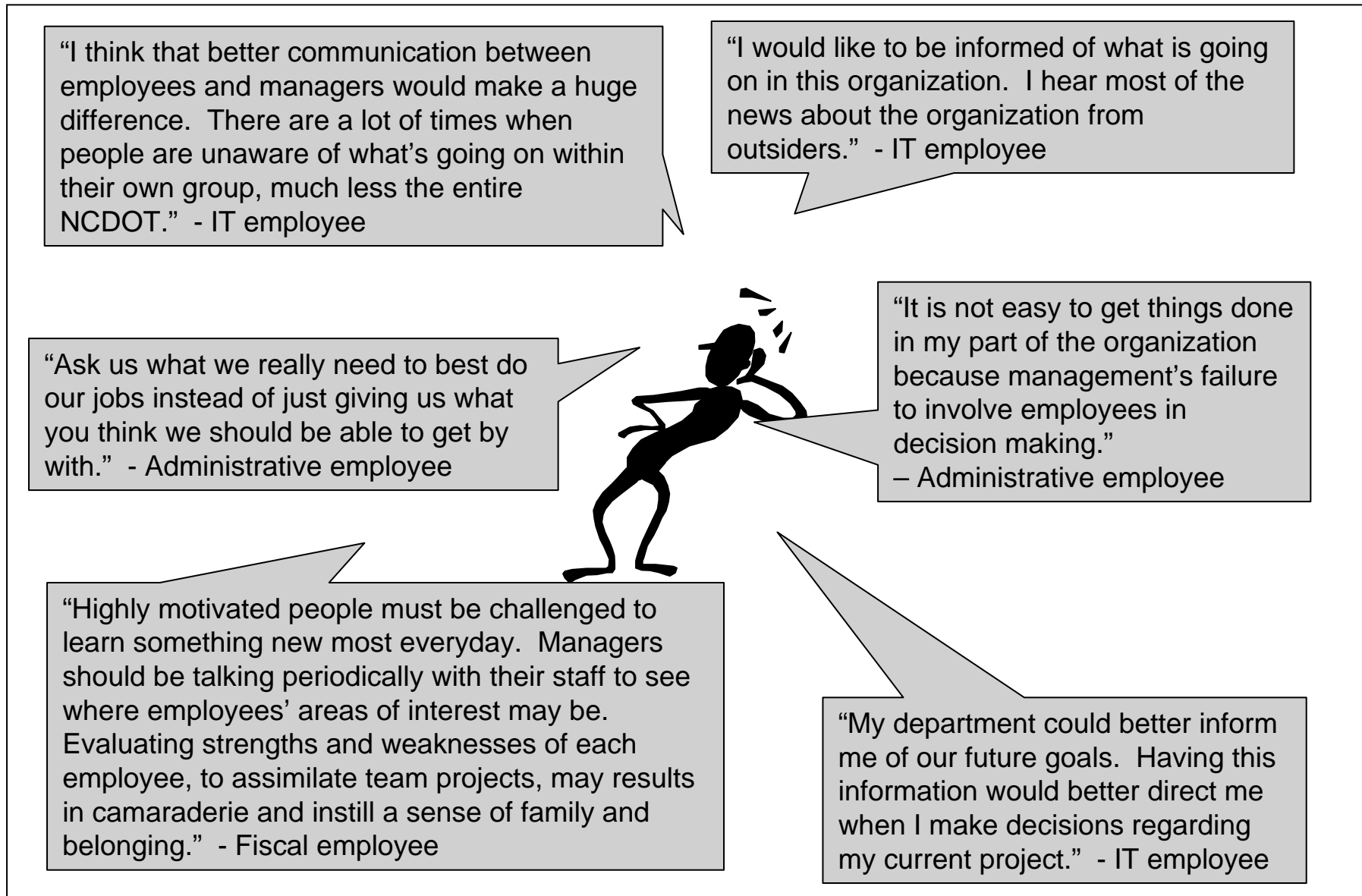
"We have some of the brightest, most talented people right here in the NCDOT, but I don't think we have put our heads together as an organization to reach agreement about what direction we want to take the organization. We have done some amazing things in NCDOT and we are a national leader in many areas, but we could be even better if we had a clearer understanding of our vision." - Fiscal employee

"It seems like everything is a priority, and neither we nor our partners who help deliver the transportation program know what is the most important to accomplish." - Intergov't affairs employee

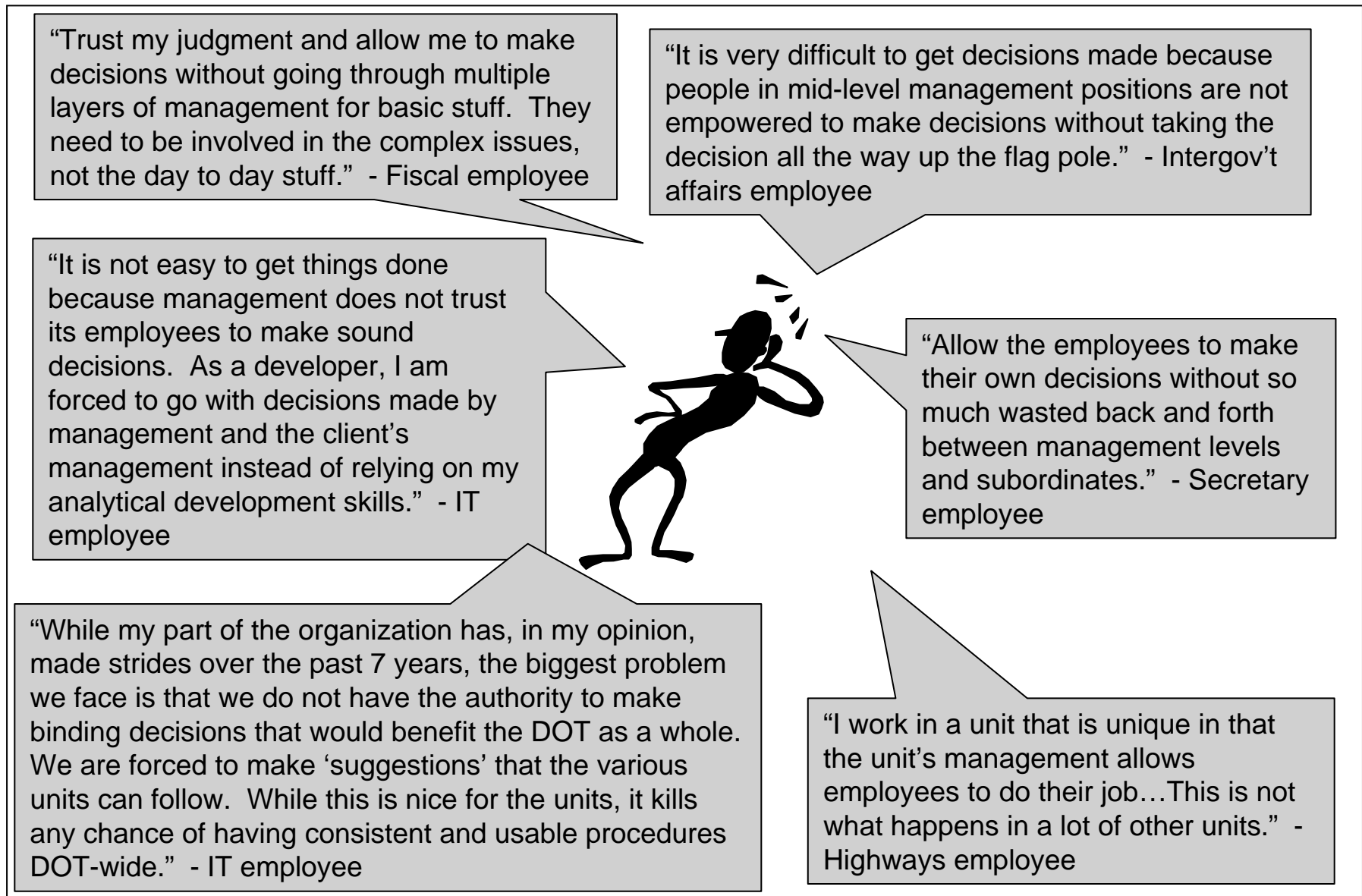
BUT ALSO DESCRIBE SEVERAL AREAS OF CONCERN INCLUDING: A LACK OF VISION AND DISCONNECT BETWEEN DIFFERENT AREAS (3/3)



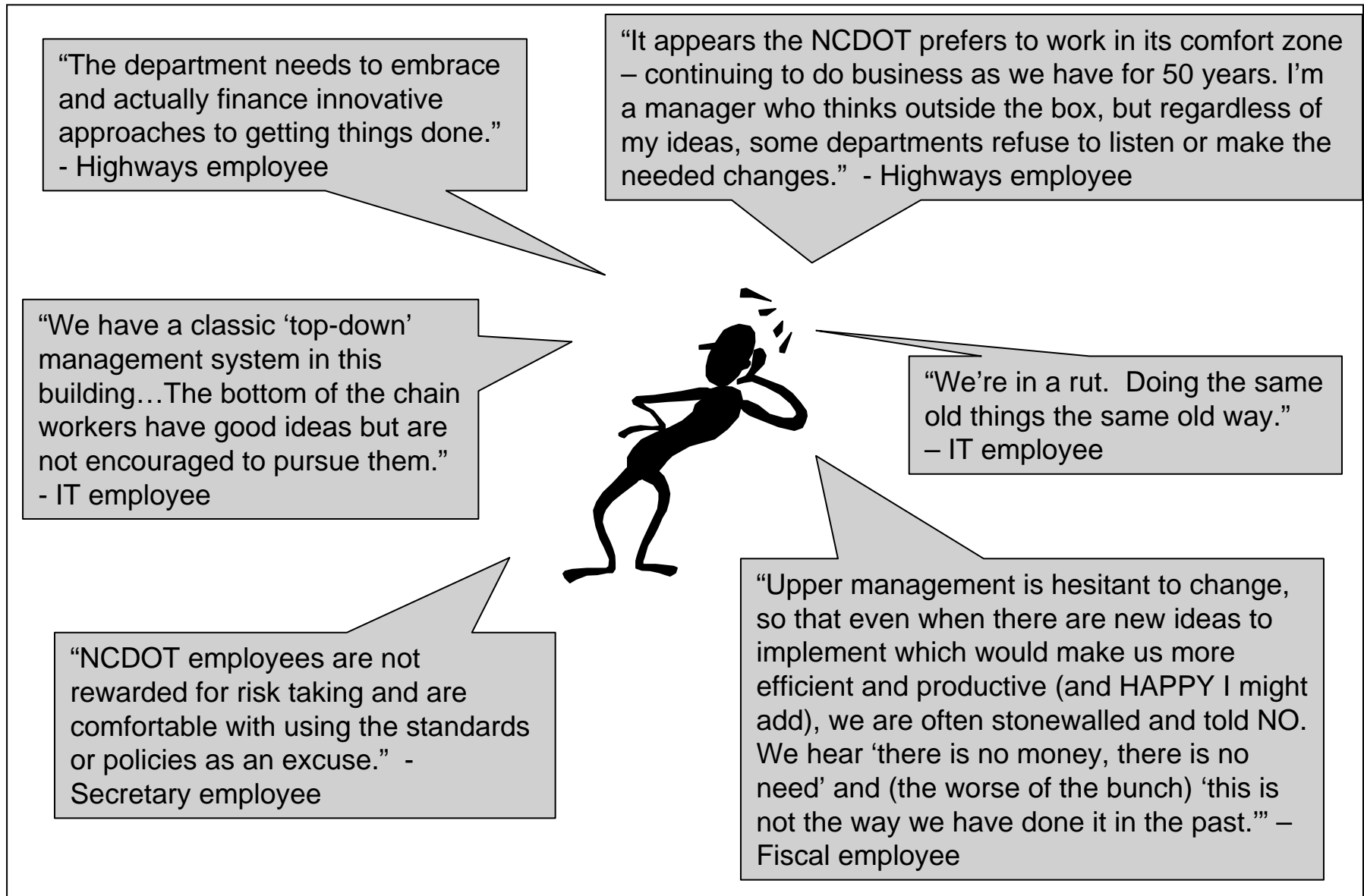
A LACK OF ENGAGEMENT BETWEEN EMPLOYEES AND MANAGEMENT...



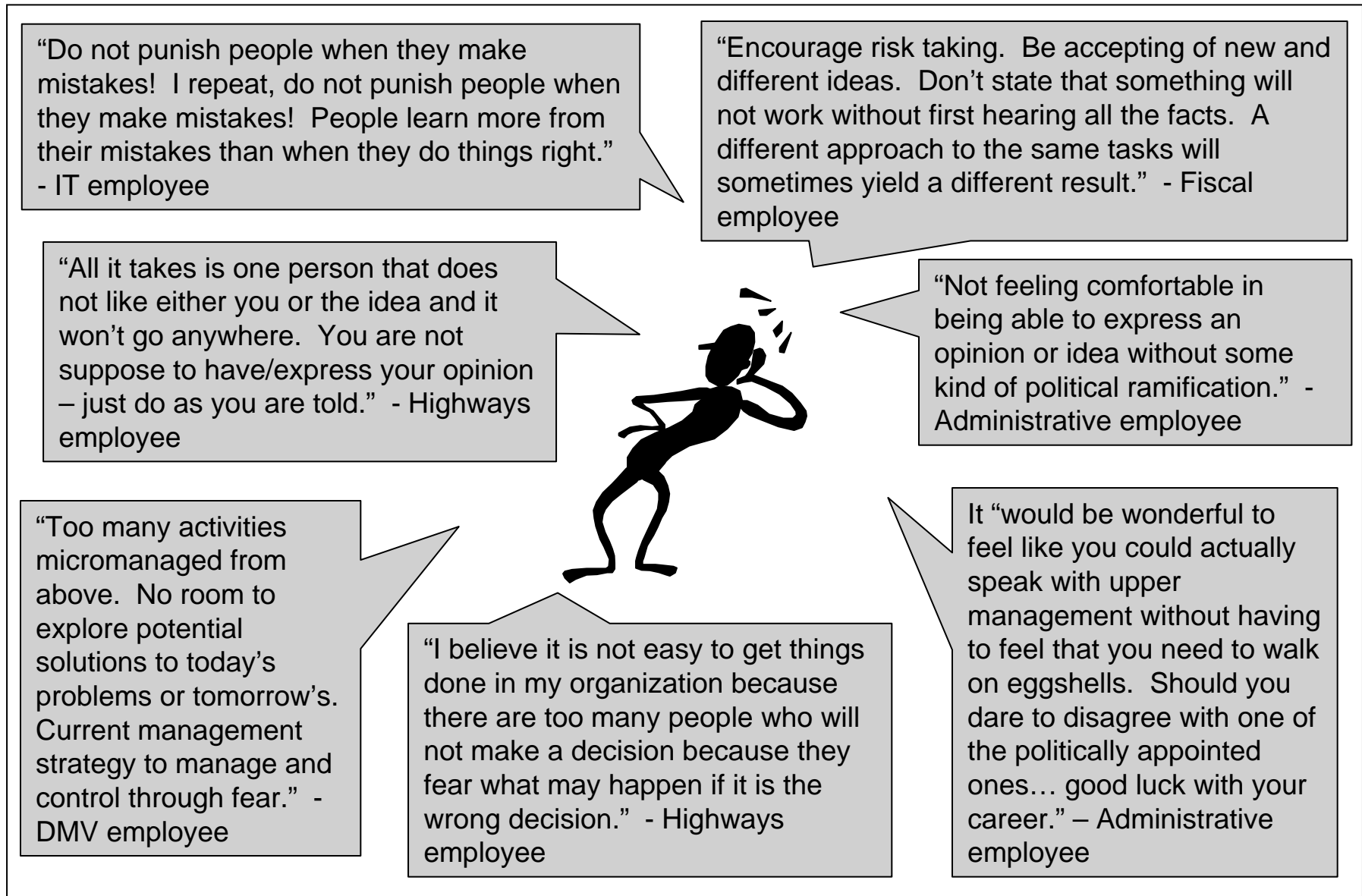
A LACK OF EMPOWERMENT TO GET THINGS DONE...



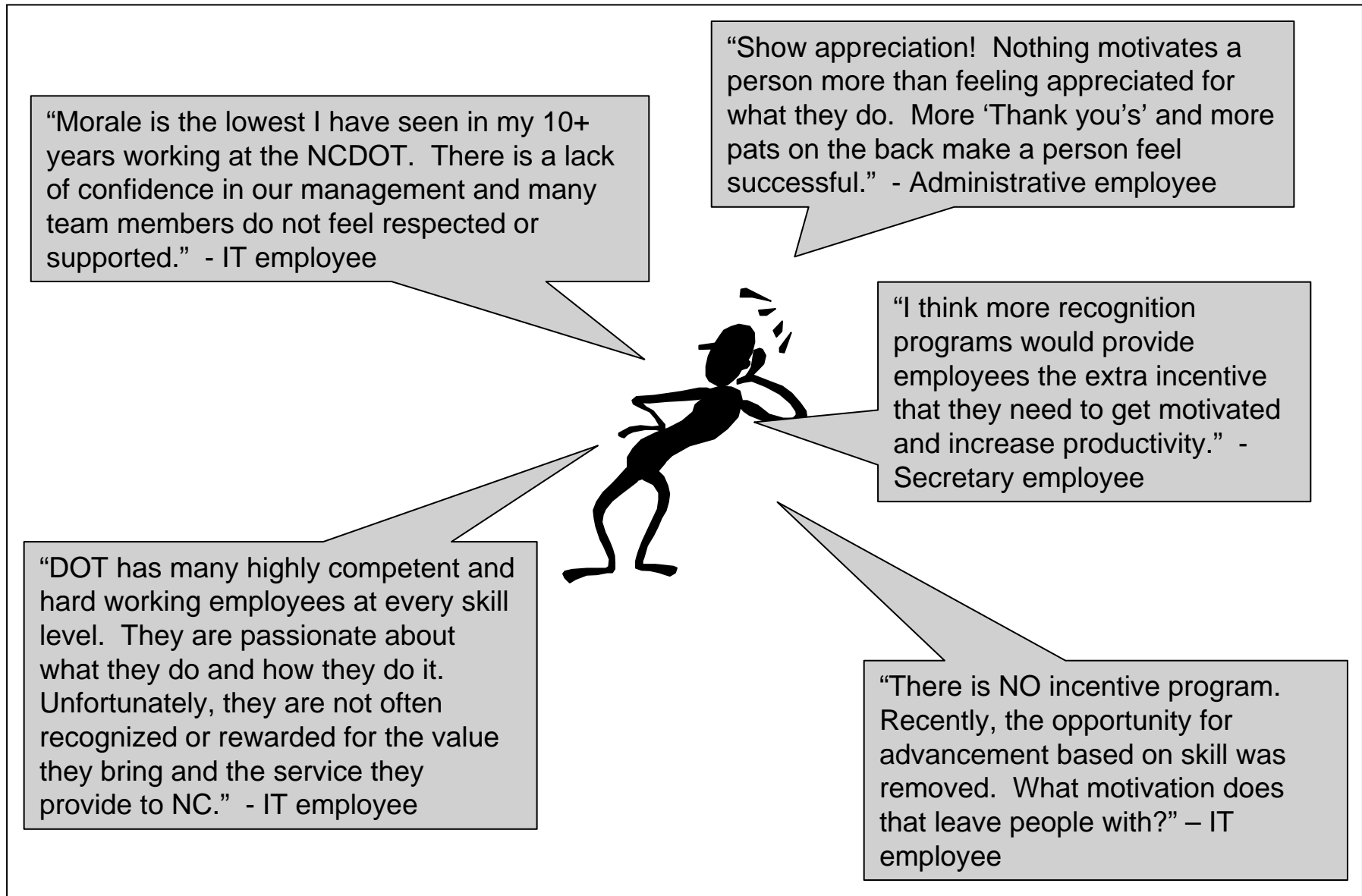
A LACK OF INNOVATION AND RISK TAKING (1/2)...



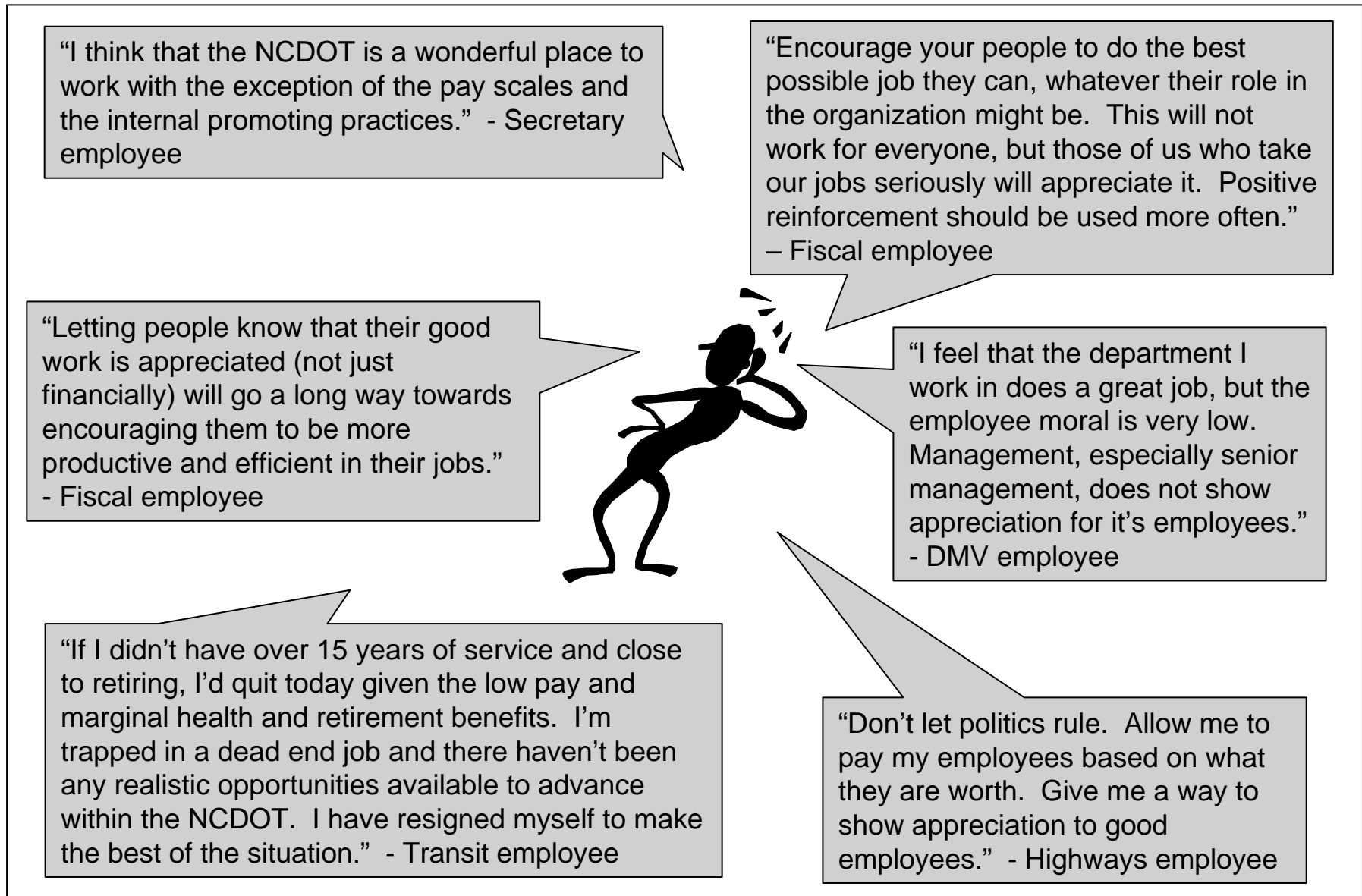
A LACK OF INNOVATION AND RISK TAKING (2/2)...



A SYSTEMATIC LACK OF MOTIVATION DUE TO (1/2) ...



A SYSTEMATIC LACK OF MOTIVATION DUE TO (2/2) ...



PERCEPTIONS OF PAY AND ...

"One of the largest problems is employee morale due to salaries and promotional opportunities. Eliminating the 10% pay increase rule would make a huge difference to employees." - Secretary employee

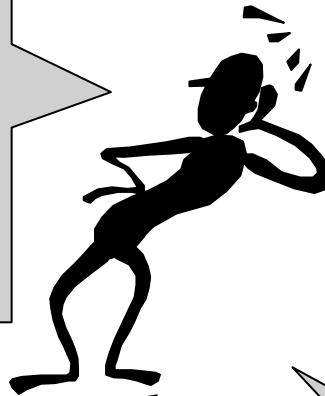
"Pay incentives were used to motivate employees to learn new skills and work harder, but the pay incentive program was frozen before employees were rewarded for their hard work. Other incentives such as flexible work schedules are being stripped away one by one." - IT employee

"Figure out a way to fund IT career banding...it is suppose to be eliminating inequities, but it is just creating more inequities! We are rewarding new state employees and abusing career state employees." - IT employee

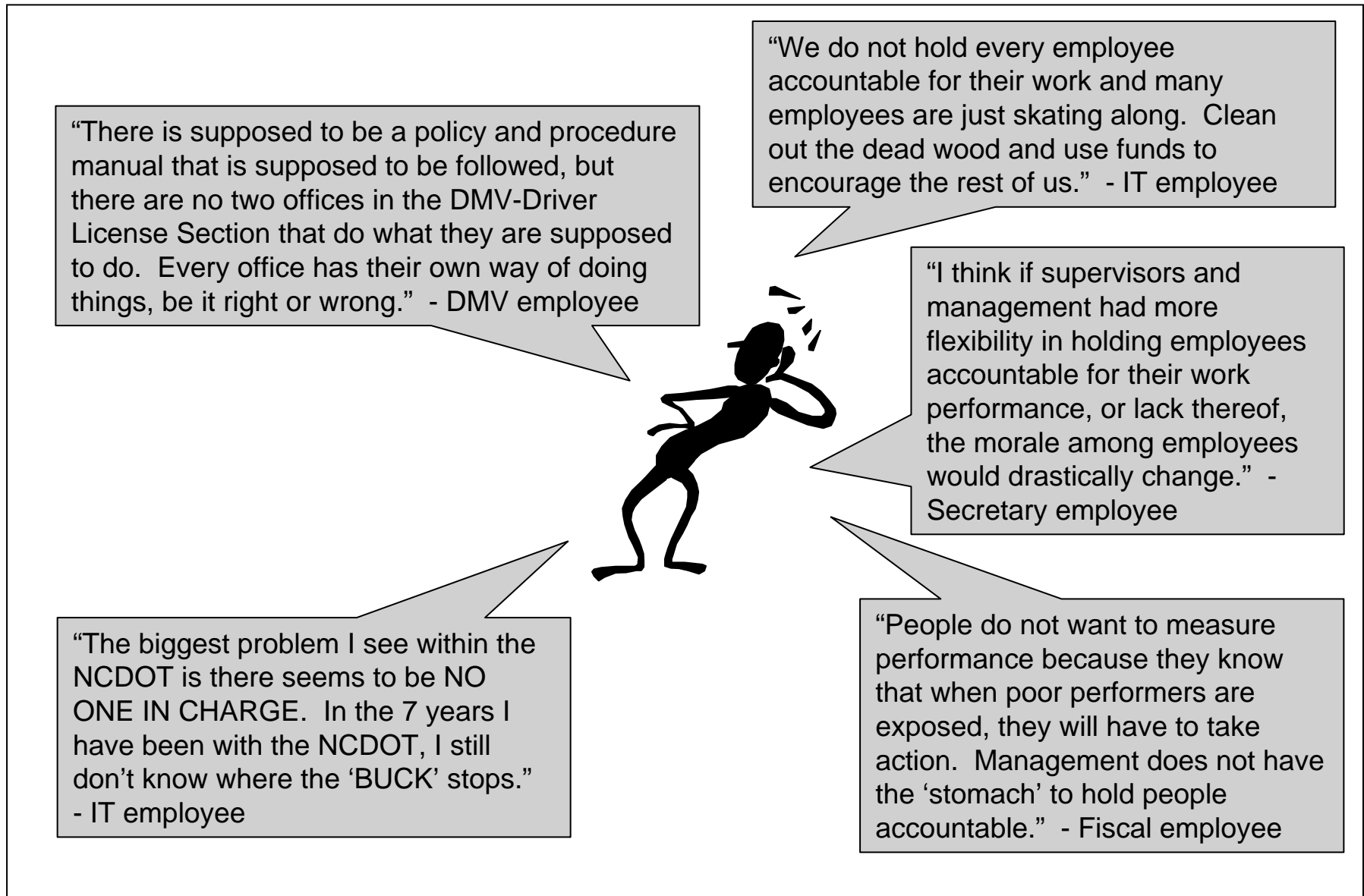
"Allow me to give direct reports performance or merit increases. Allow me to give more than the 10% increase for promotions." - Fiscal employee

"The pay grade scales appear to be fair, but no one can ever make near the top of his pay grade scale – not even if he has over 25 years of what has been considered excellent service. It hurts when less experienced people are hired making about the same as you. One does not feel appreciated." - Administrative employee

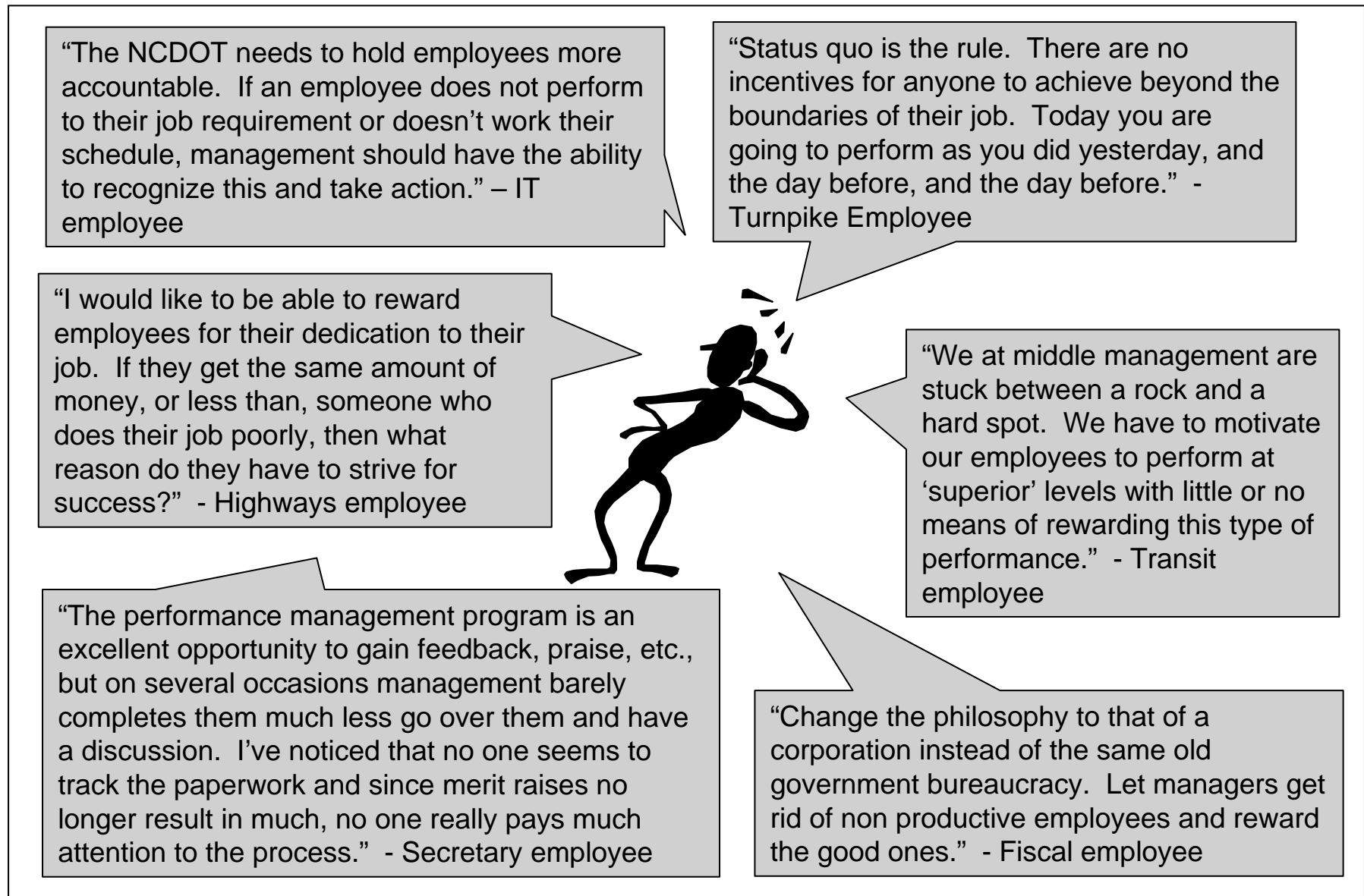
"The career banding system is career ending. I wish we never had this system to begin with." - IT employee



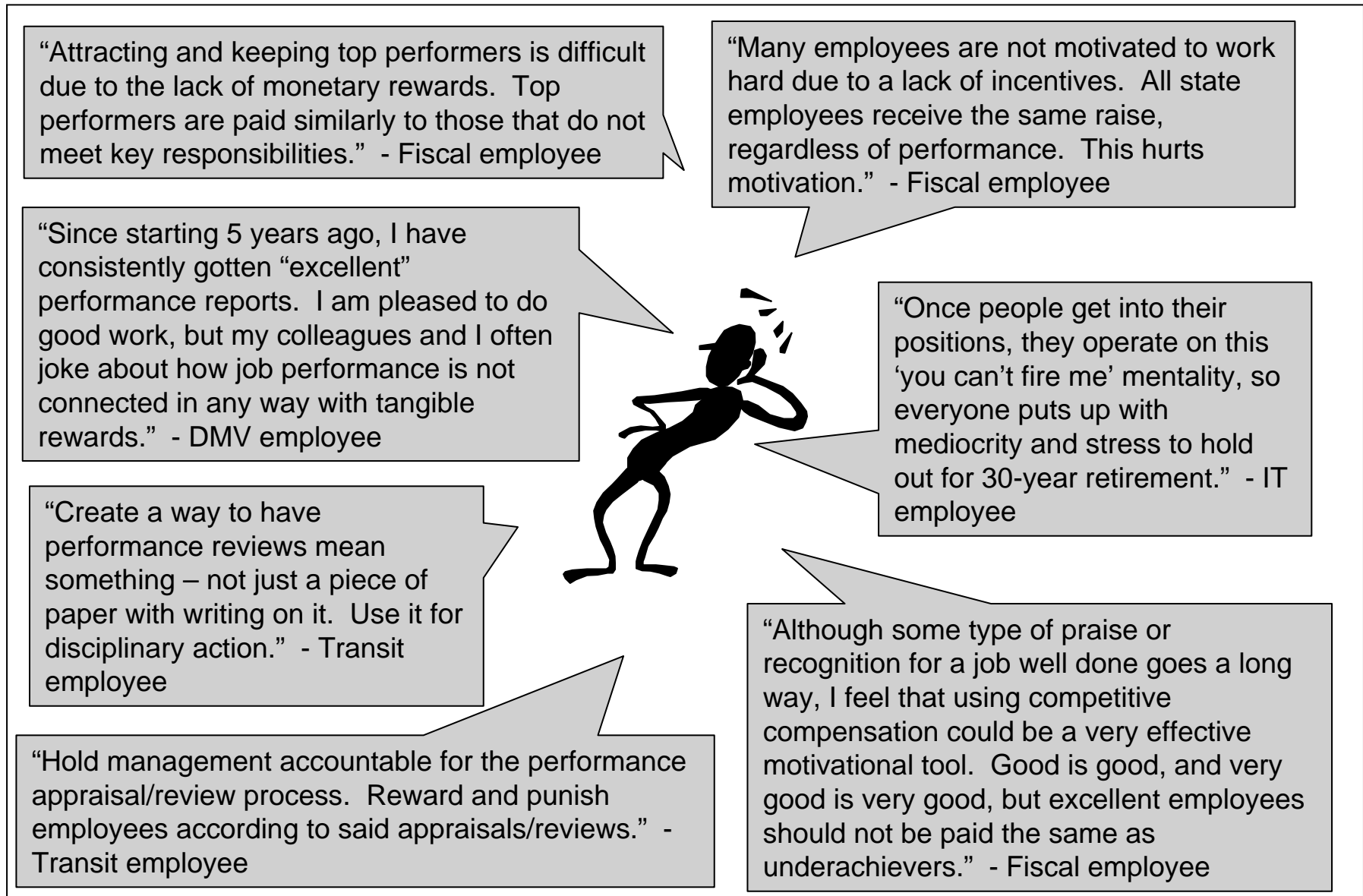
PERCEIVED LACK OF ACCOUNTABILITY AND...



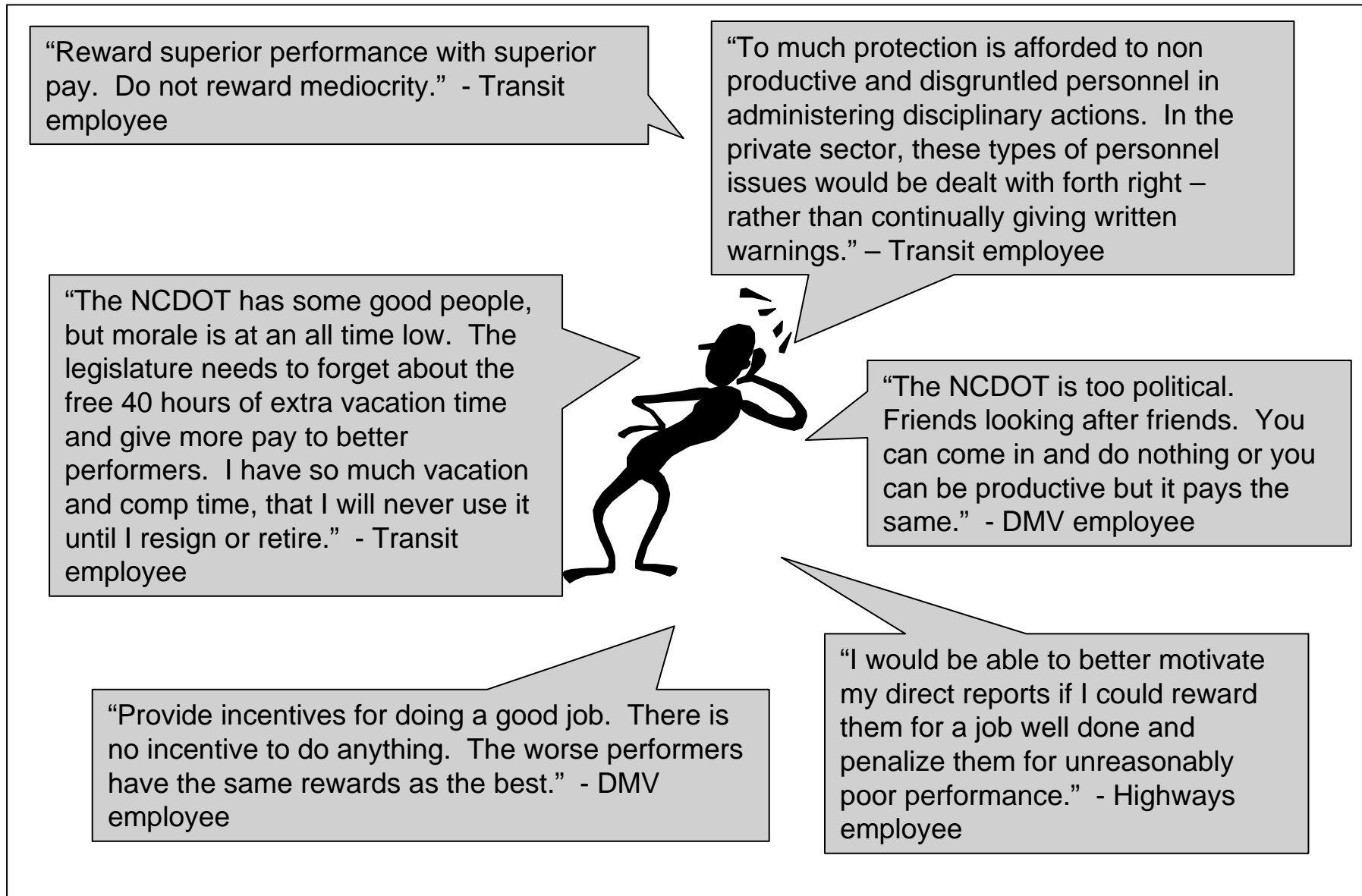
AND PERCEIVED INEFFECTIVE CONSEQUENCE MANAGEMENT (1/3)



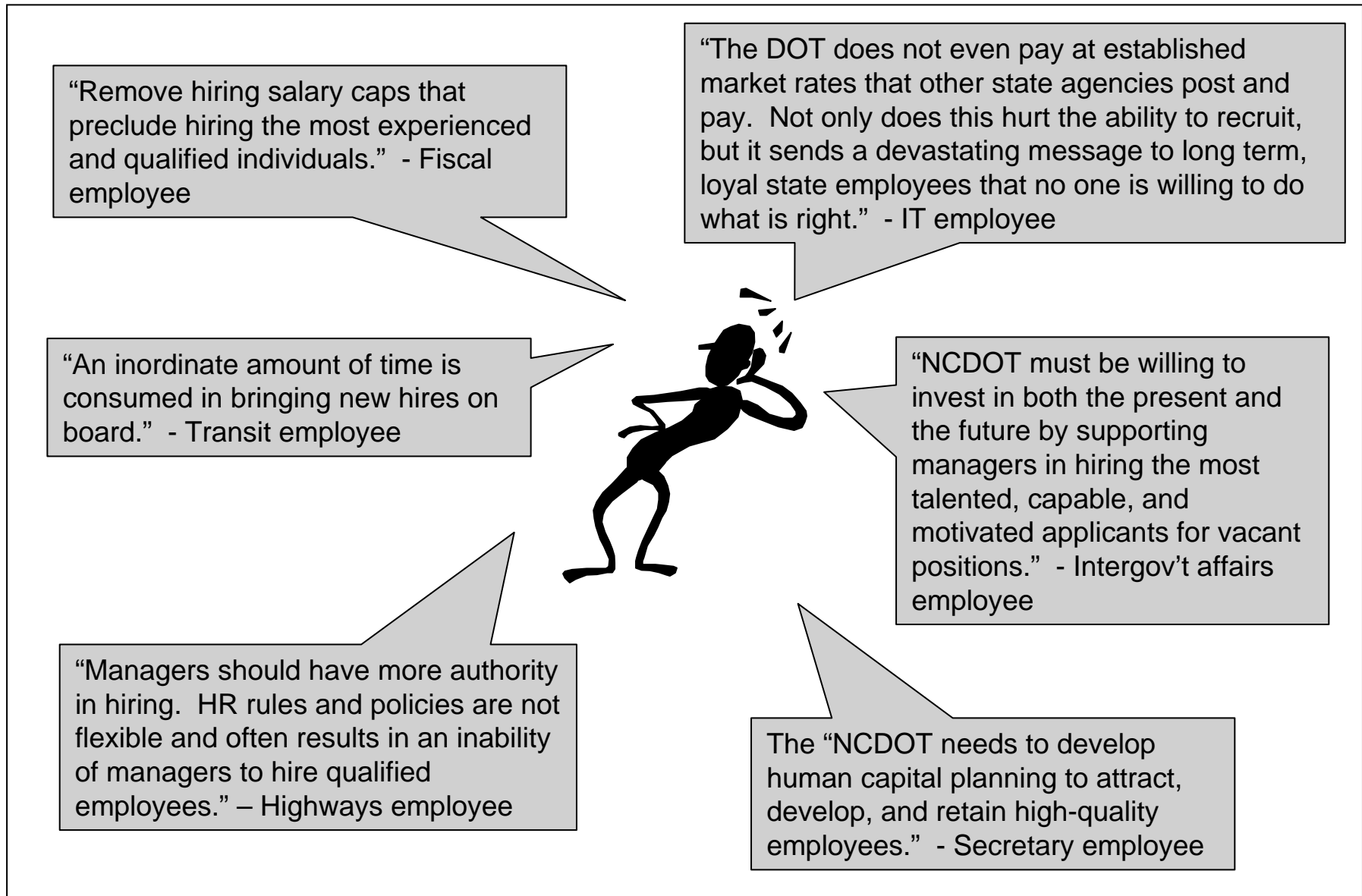
AND PERCEIVED INEFFECTIVE CONSEQUENCE MANAGEMENT (2/3)



AND PERCEIVED INEFFECTIVE CONSEQUENCE MANAGEMENT (3/3)



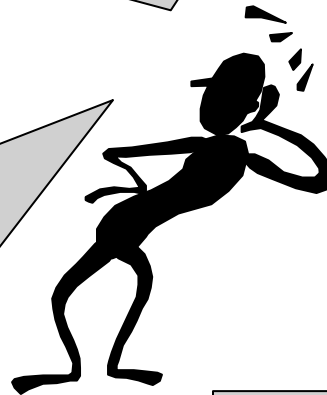
OTHER COMMENTS EXPRESS CONCERN OVER THE RECRUITING PROCESS AND THE TRAINING OF EMPLOYEES (1/3)



OTHER COMMENTS EXPRESS CONCERN OVER THE RECRUITING PROCESS AND THE TRAINING OF EMPLOYEES (2/3)

“Hire more high-quality employees. There are situations where it would be much wiser to hire one employee for \$50,000 instead of 2 employees with less skills for \$30,000 per employee. In many instances, the \$50,000 employee could accomplish the work of two and save the state money.”
- Fiscal employee

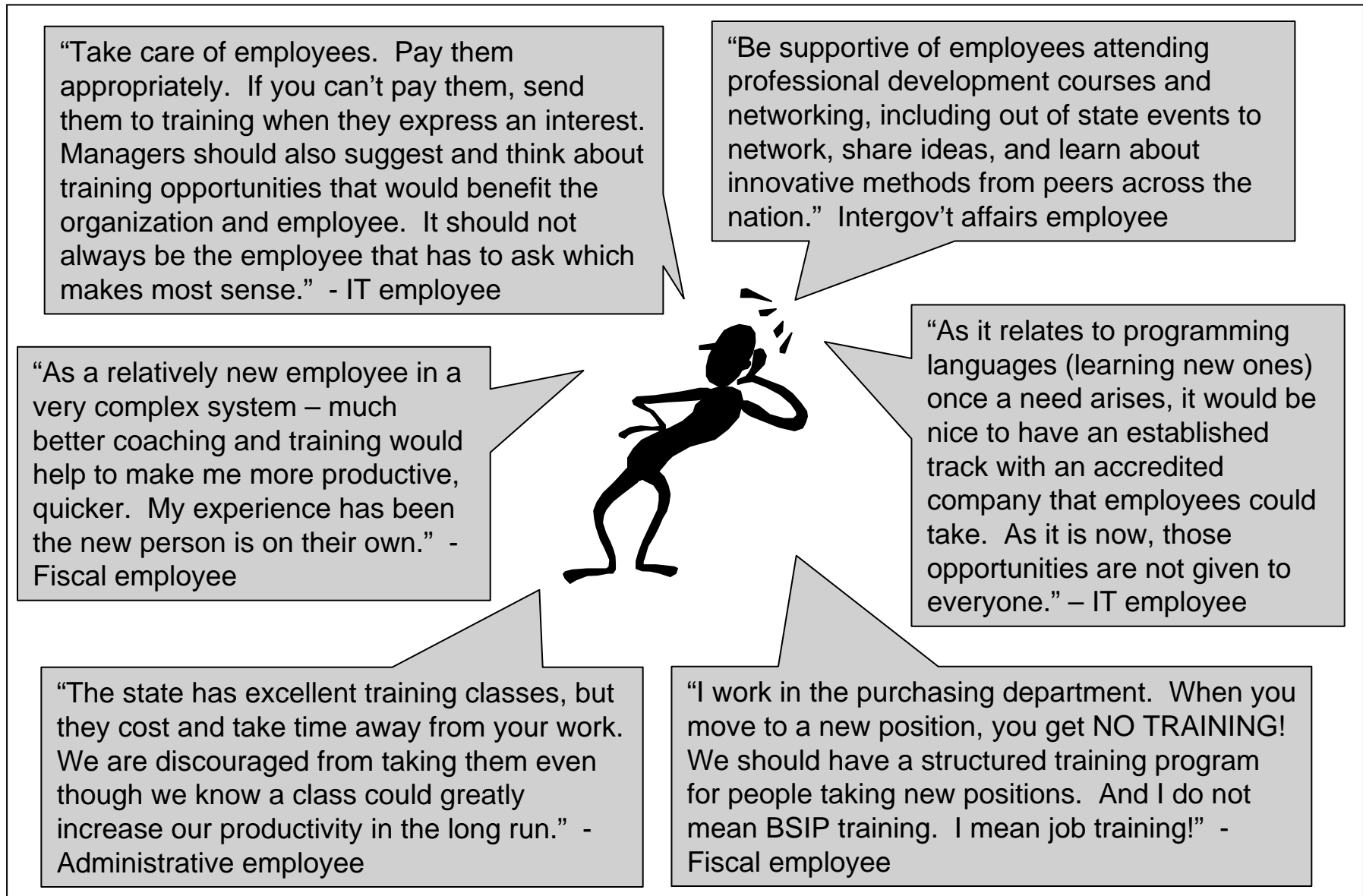
“My concern recently has been in hiring employees. We have noticed trends in which applicant salaries exceed our internal staff salaries at the same position or even lower positions. As a result, I think we are missing out on hiring ‘good’ employees because we cannot compete with their current salaries.” - Fiscal employee



“It’s hard to recruit good employees because the process takes so long.” – Highways employee

“It is not easy to effectively deliver programs and positive outcomes to the public under the current hiring policy which limits salaries to a minimum level. This approach is self-defeating for the organization. The offer of minimal salaries does not result in hiring the most talented employees.” - Intergov’t affairs employee

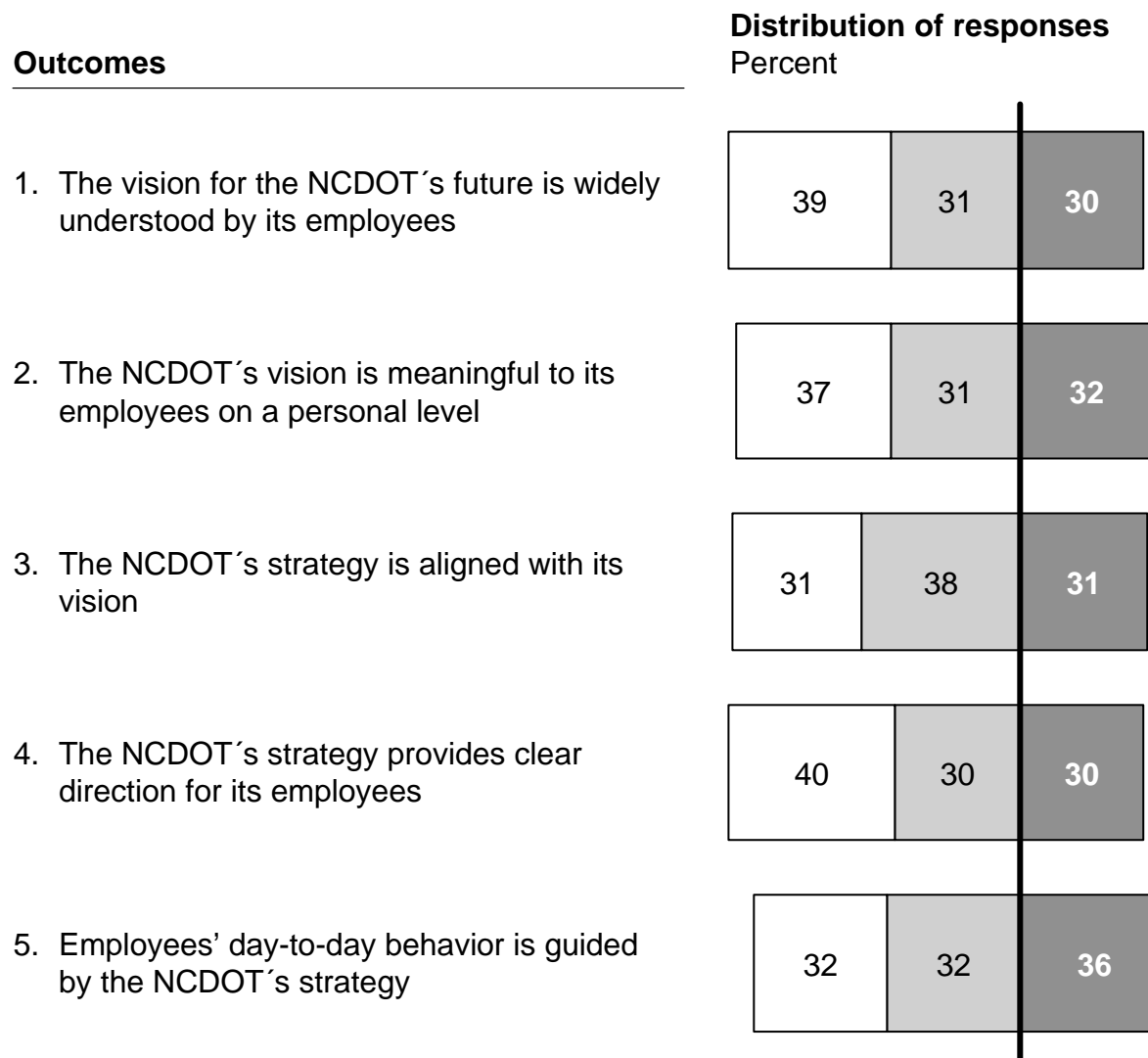
OTHER COMMENTS EXPRESS CONCERN OVER THE RECRUITING PROCESS AND THE TRAINING OF EMPLOYEES (3/3)



DIRECTION OUTCOME QUESTIONS – OVERALL (ONLINE + PAPER)

Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree



Source: Overall results from NCDOT Online + Paper OPP survey (n = 8977)

LEADERSHIP OUTCOME QUESTIONS – OVERALL (ONLINE + PAPER)

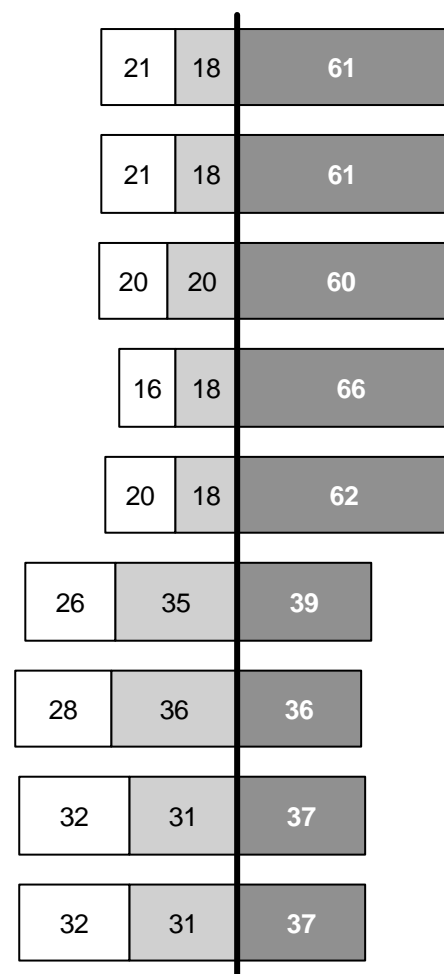
Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree

Outcomes

1. The manager that I report to –
(please answer each question)
 - a. Provides a good role model for me to follow
 - b. Makes decisions in a timely manner
 - c. Makes high quality decisions
 - d. Has a deep understanding of the NCDOT
 - e. Maintains constructive relationships with his/her direct reports
2. The actions of the NCDOT's board members are aligned with the organization's strategy
3. The NCDOT's board – (please answer each question)
 - a. Shares a common vision for the future of the organization
 - b. Is highly respected throughout the organization
 - c. Makes a visible contribution to the success of the organization

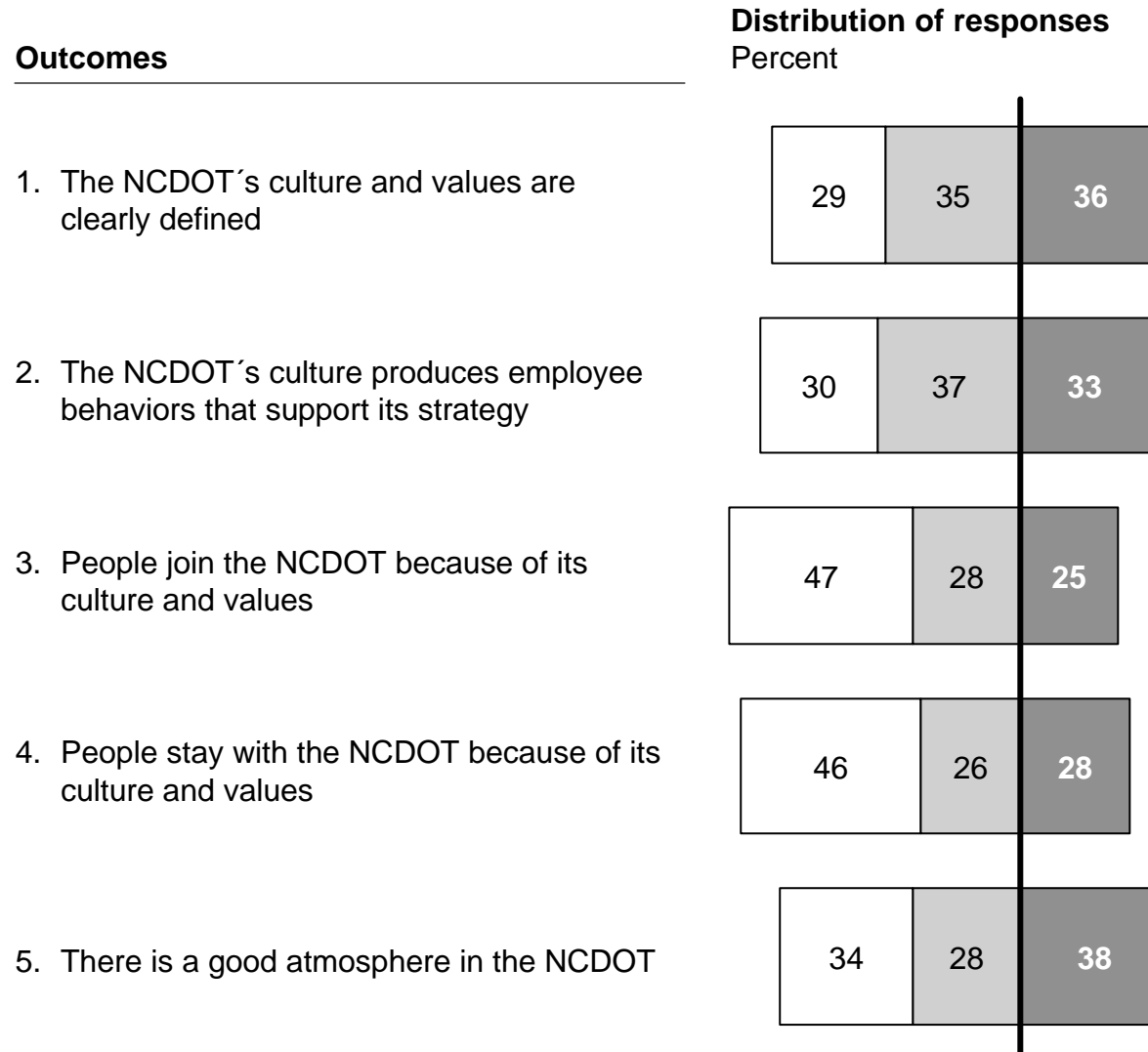
Distribution of responses Percent



ENVIRONMENT & VALUES OUTCOME QUESTIONS – OVERALL (ONLINE + PAPER)

Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree

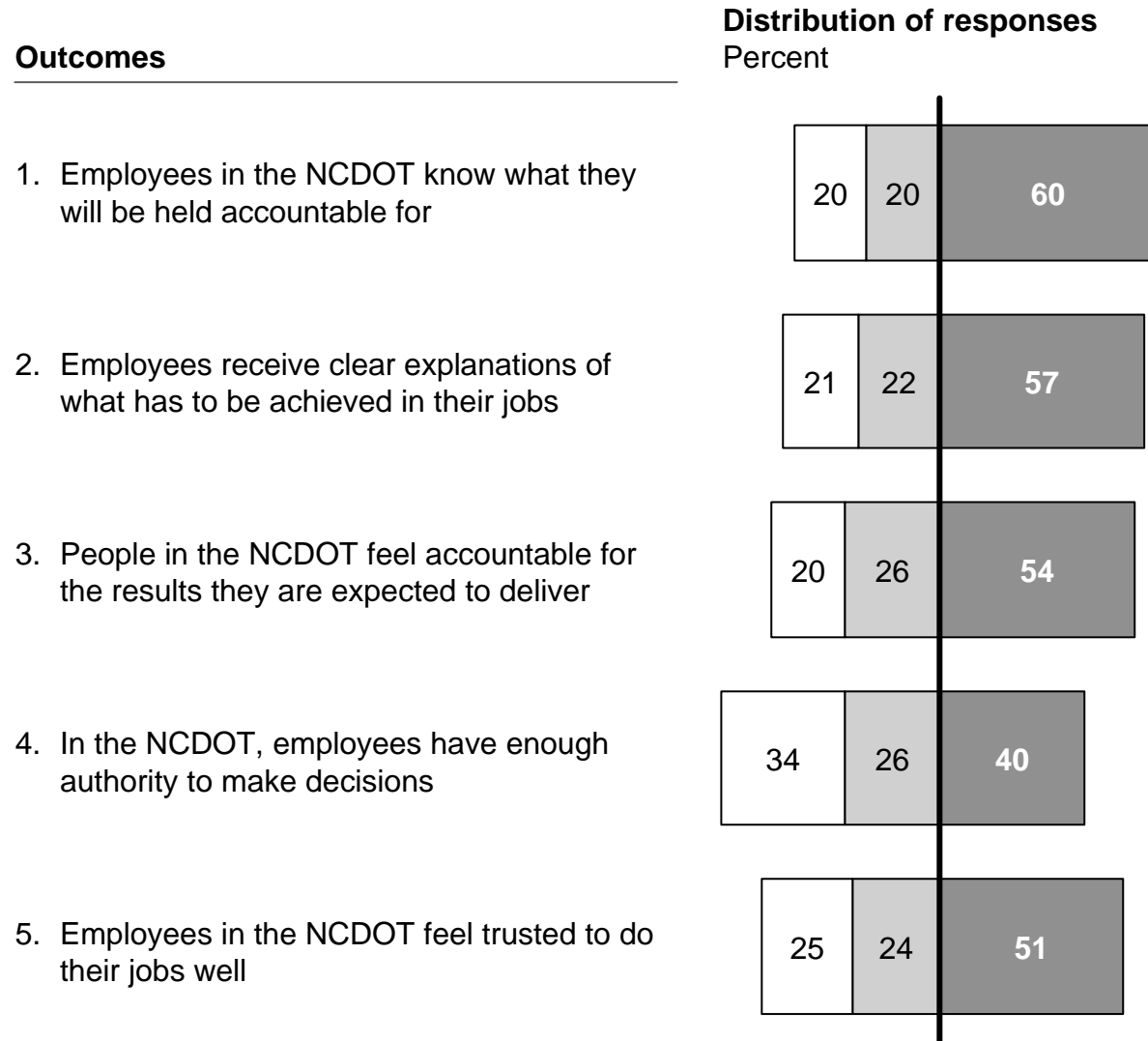


Source: Overall results from NCDOT Online + Paper OPP survey (n = 8977)

ACCOUNTABILITY OUTCOME QUESTIONS – OVERALL (ONLINE + PAPER)

Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree

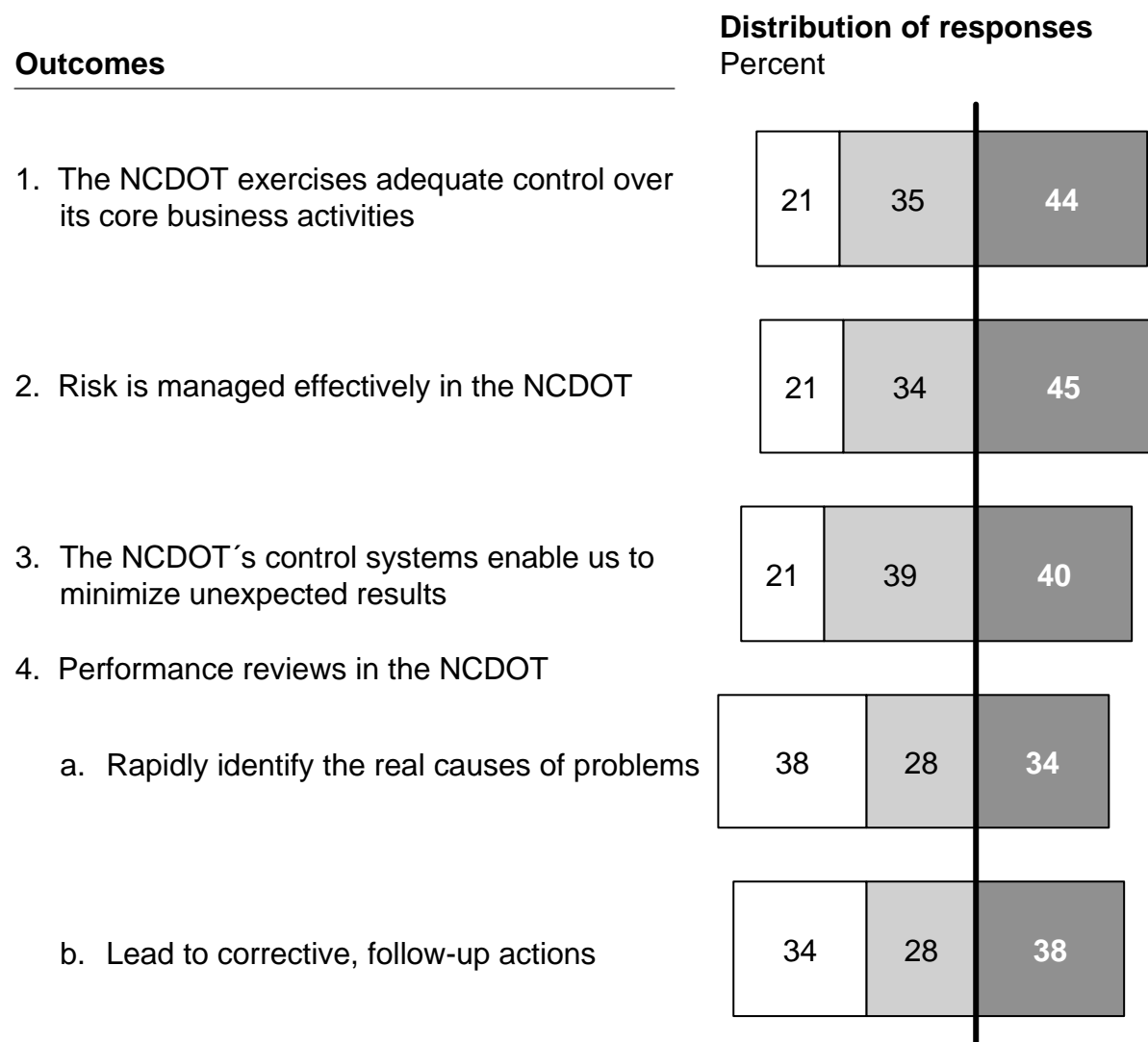


Source: Overall results from NCDOT Online + Paper OPP survey (n = 8977)

COORDINATION & CONTROL OUTCOME QUESTIONS – OVERALL (ONLINE + PAPER)

Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree

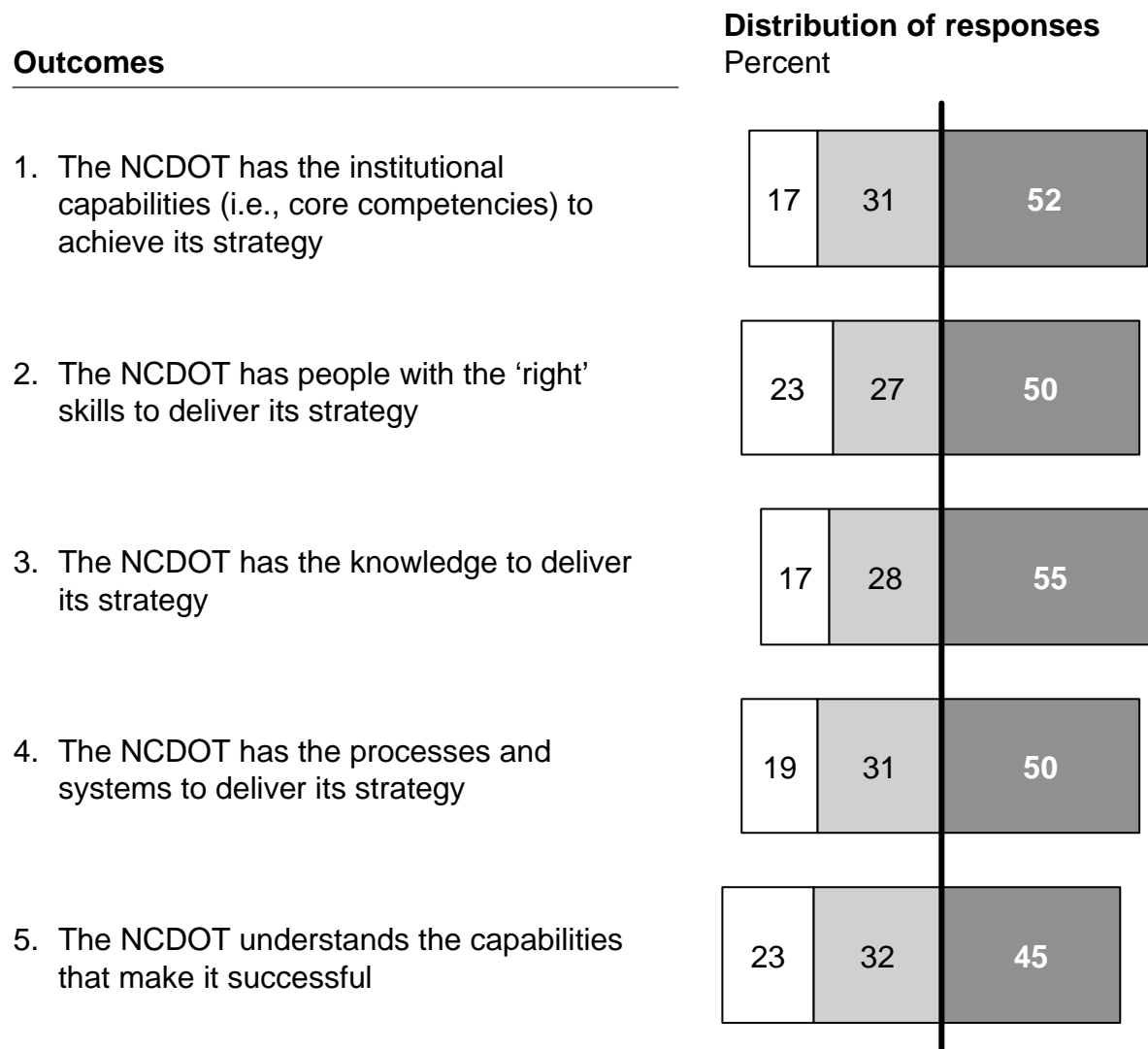


Source: Overall results from NCDOT Online + Paper OPP survey (n = 8977)

CAPABILITIES OUTCOME QUESTIONS – OVERALL (ONLINE + PAPER)

Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree

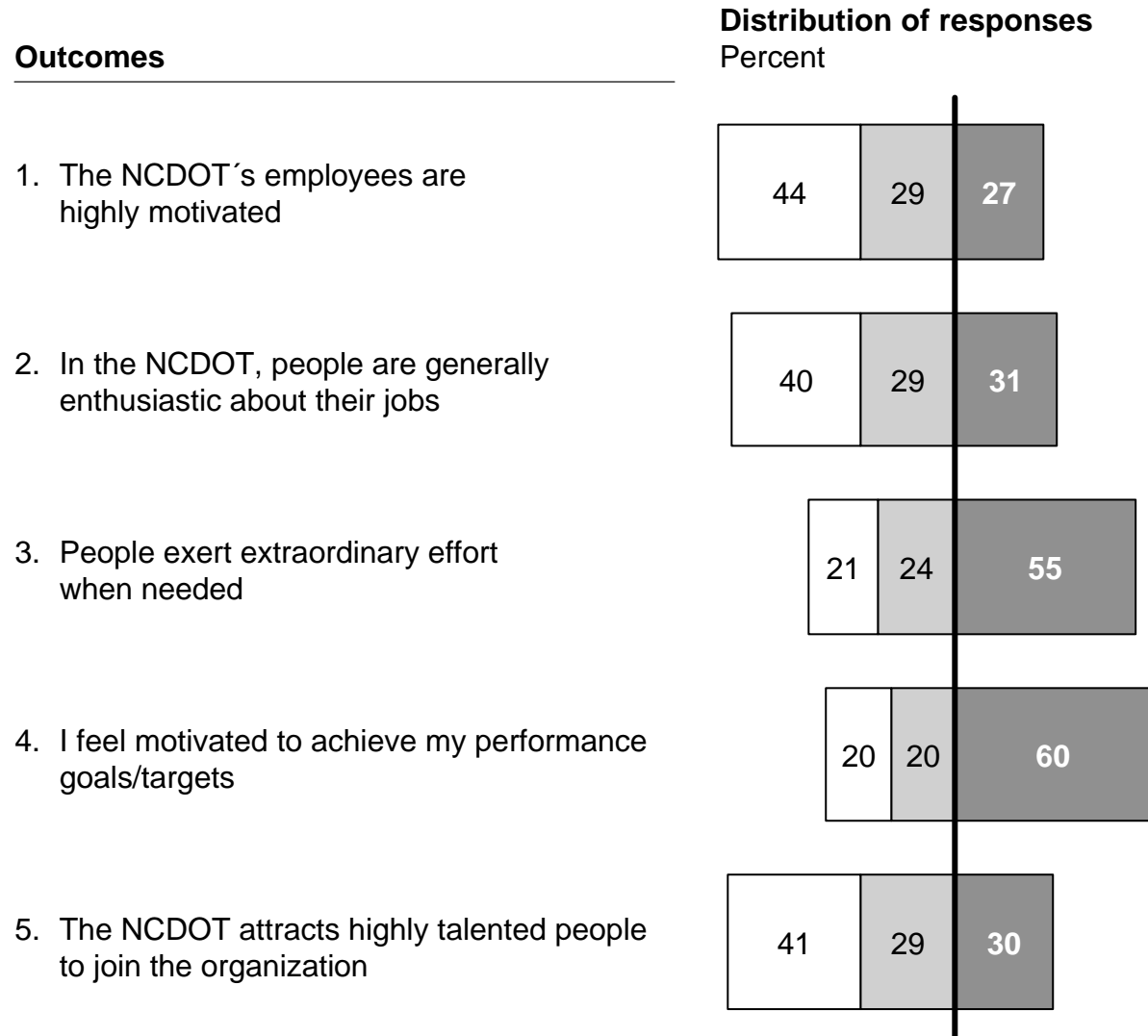


Source: Overall results from NCDOT Online + Paper OPP survey (n = 8977)

MOTIVATION OUTCOME QUESTIONS – OVERALL (ONLINE + PAPER)

Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree

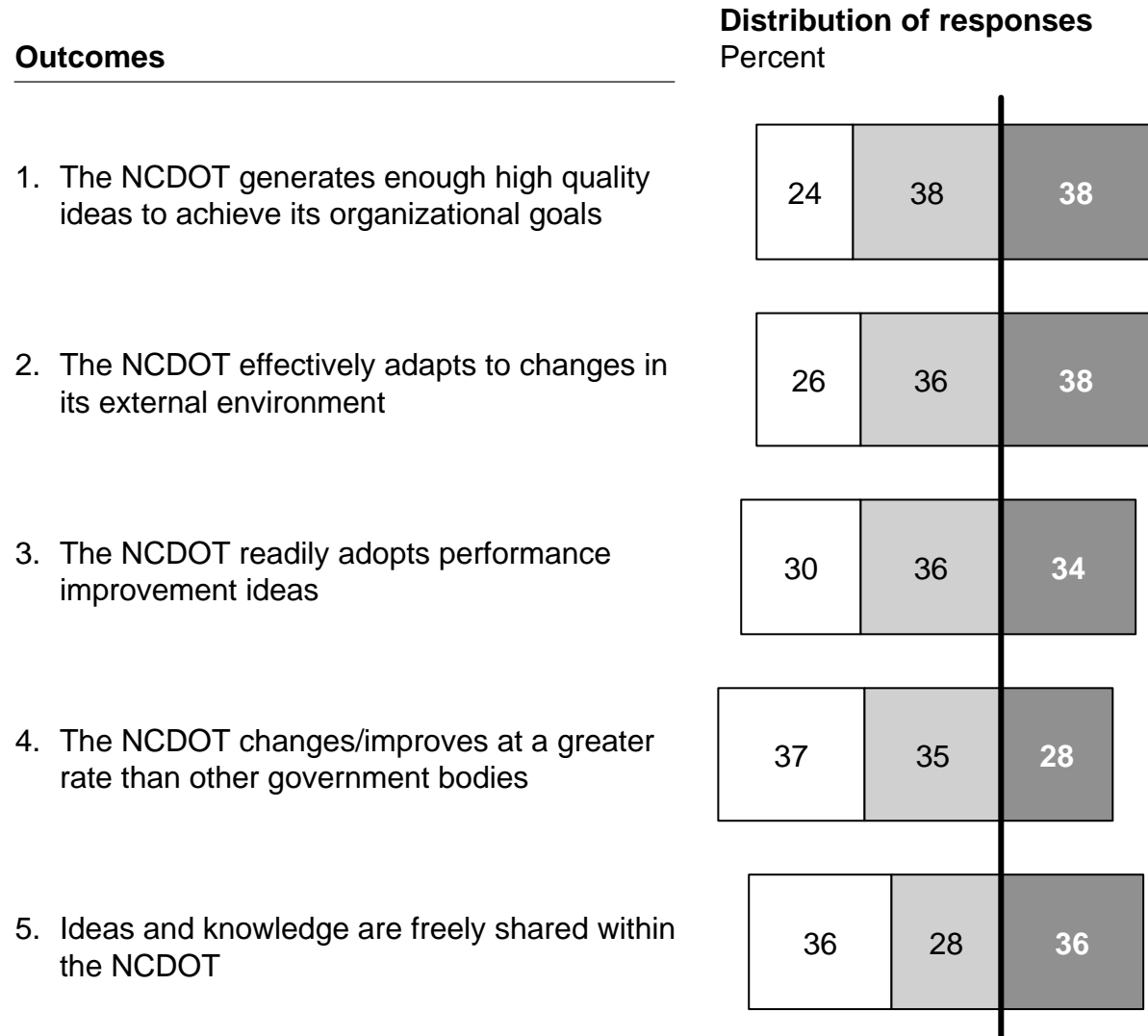


Source: Overall results from NCDOT Online + Paper OPP survey (n = 8977)

INNOVATION OUTCOME QUESTIONS – OVERALL (ONLINE + PAPER)

Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree

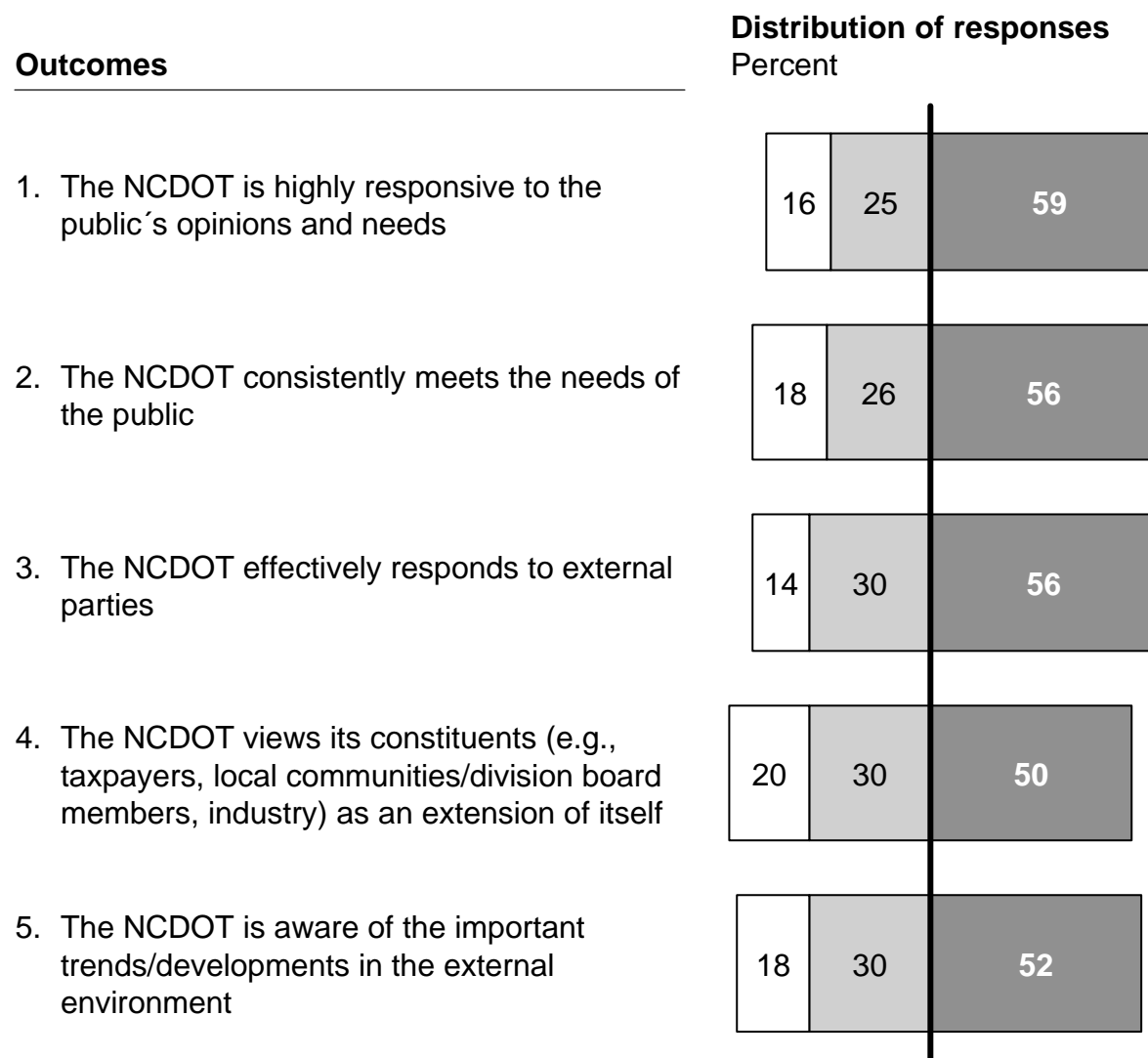


Source: Overall results from NCDOT Online + Paper OPP survey (n = 8977)

EXTERNAL ORIENTATION OUTCOME QUESTIONS – OVERALL (ONLINE + PAPER)

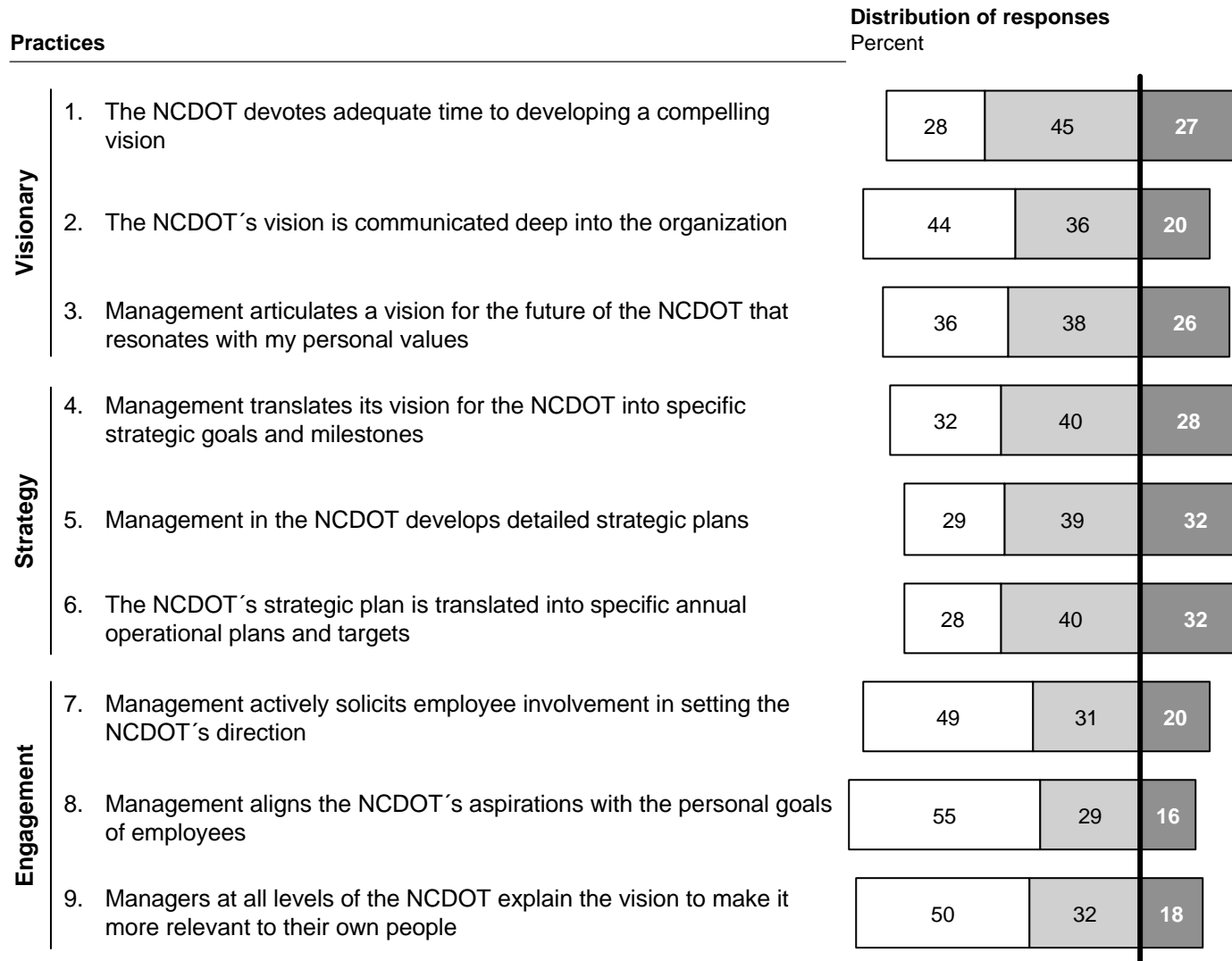
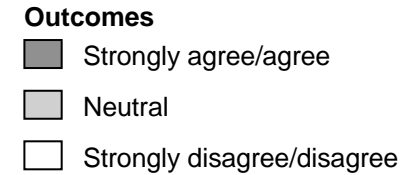
Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree



Source: Overall results from NCDOT Online + Paper OPP survey (n = 8977)

DIRECTION – COMBINED PRACTICES AND OUTCOMES



Source: Overall results from NCDOT Online OPP survey (n = 3274)

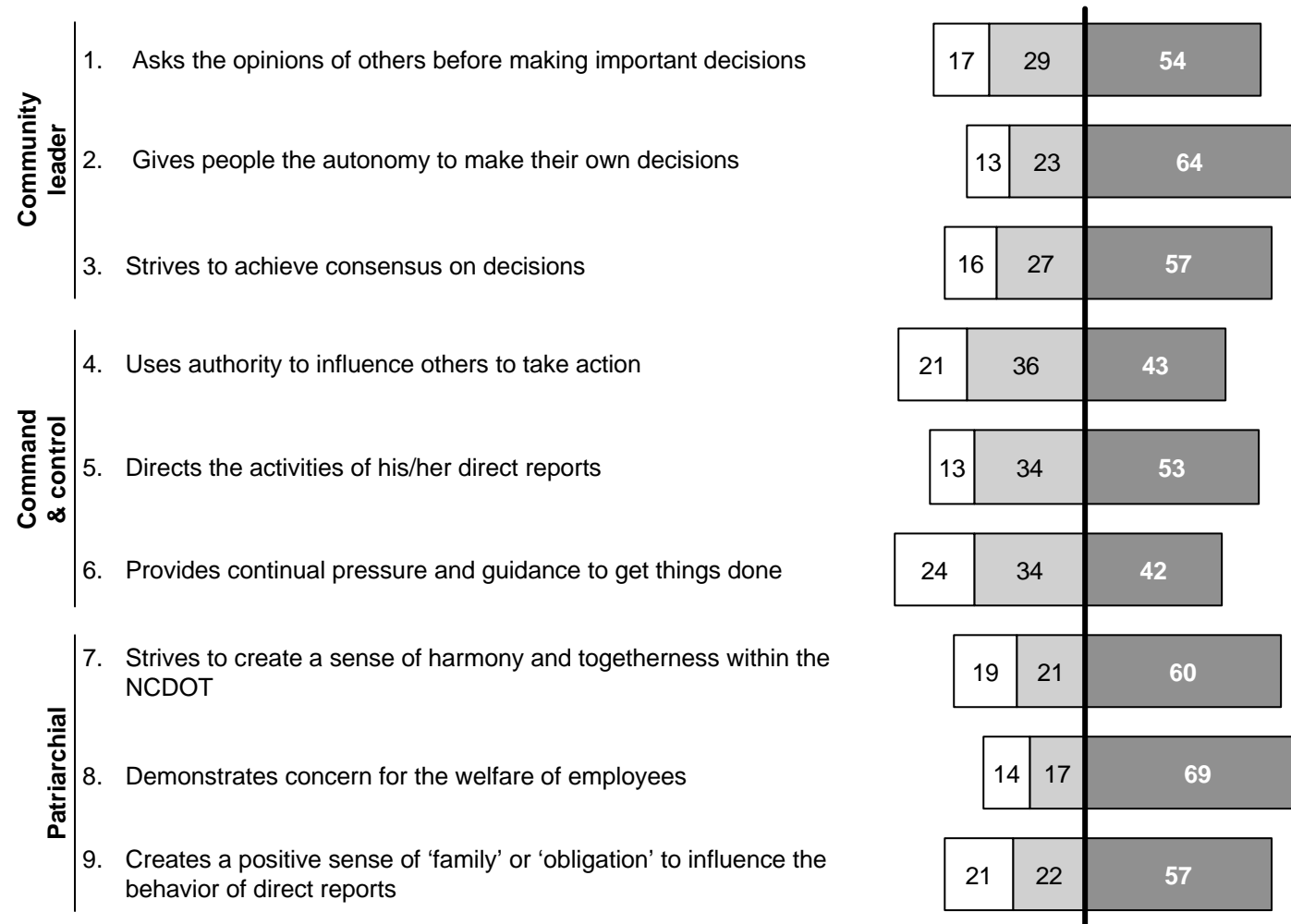
LEADERSHIP – COMBINED PRACTICES AND OUTCOMES

Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree

Practices

Distribution of responses Percent

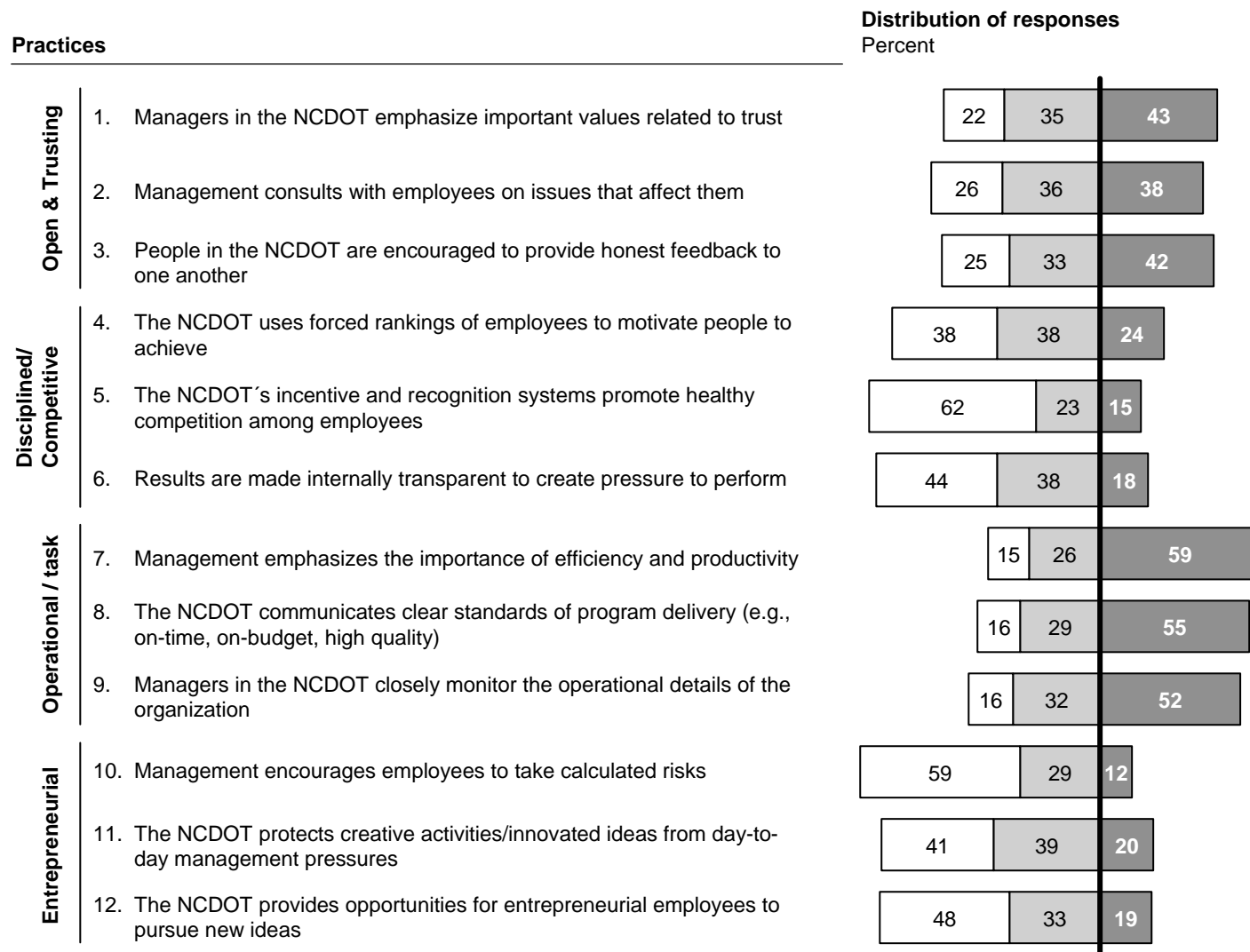


Source: Overall results from NCDOT Online OPP survey (n = 3274)

ENVIRONMENT & VALUES – COMBINED PRACTICES AND OUTCOMES

Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree

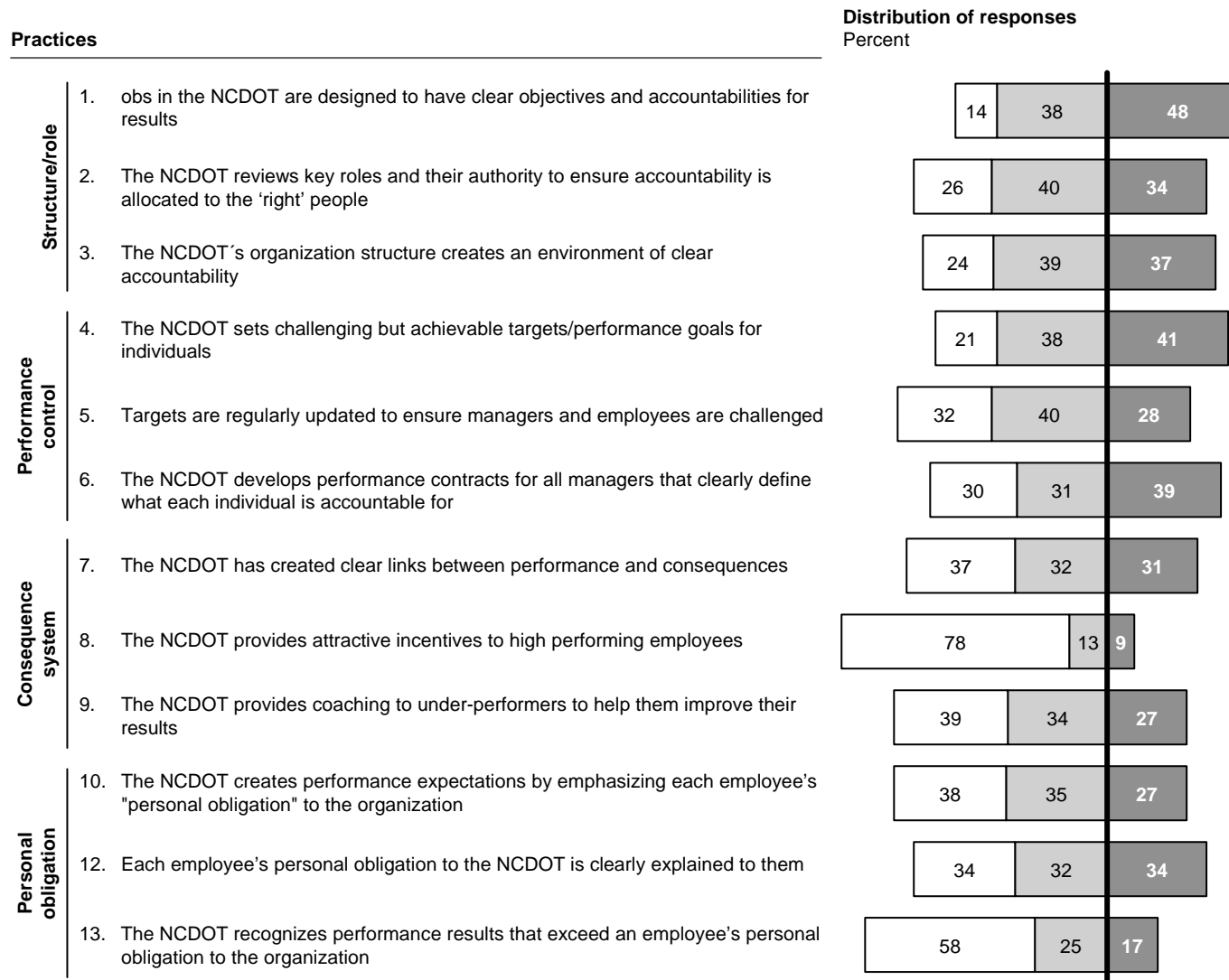


Source: Overall results from NCDOT Online OPP survey (n = 3274)

ACCOUNTABILITY– COMBINED PRACTICES AND OUTCOMES

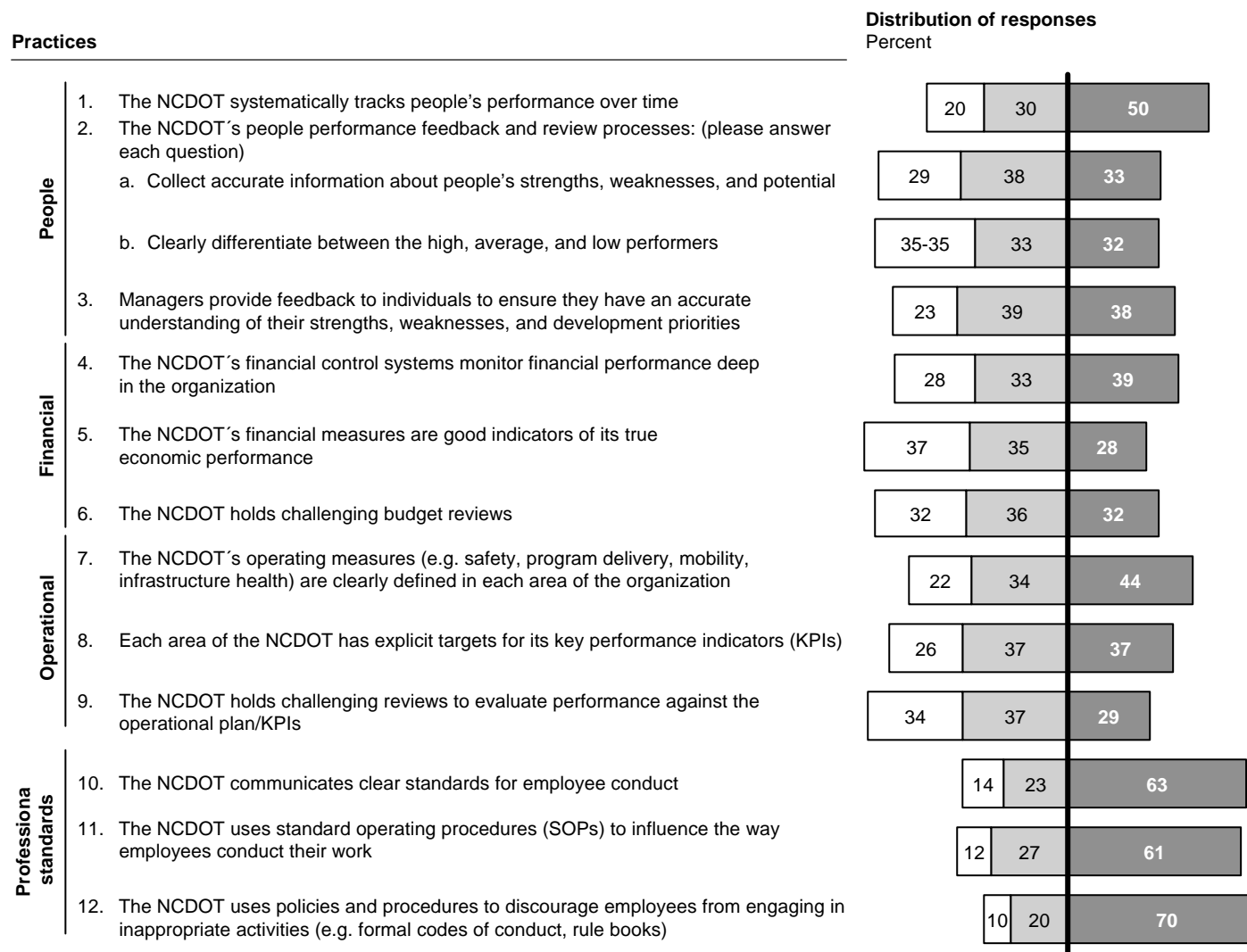
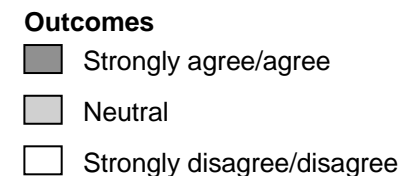
Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree



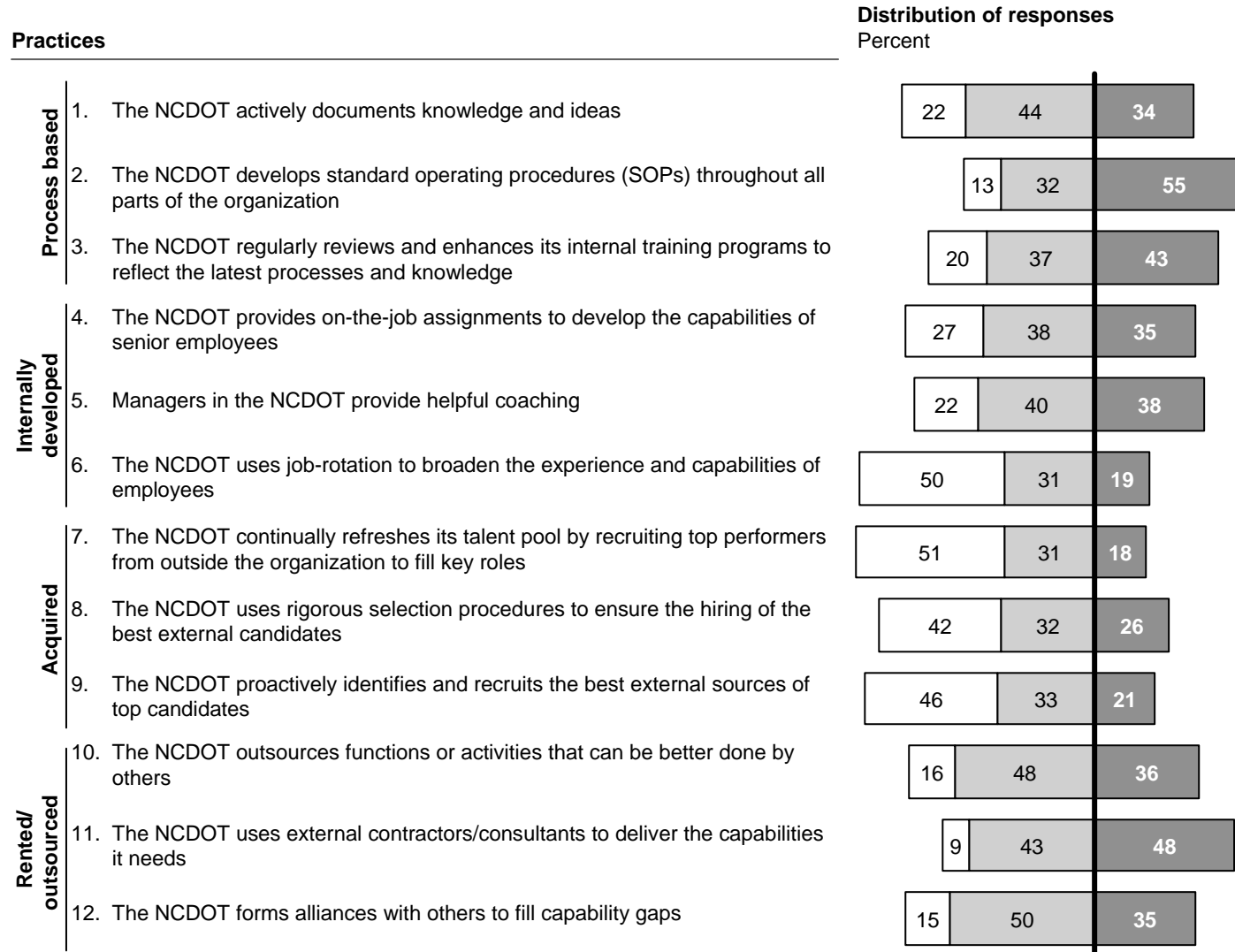
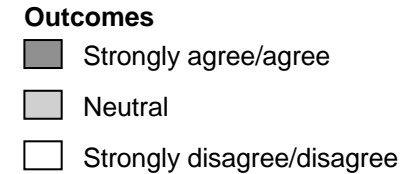
Source: Overall results from NCDOT Online OPP survey (n = 3274)

COORDINATION & CONTROL – COMBINED PRACTICES AND OUTCOMES



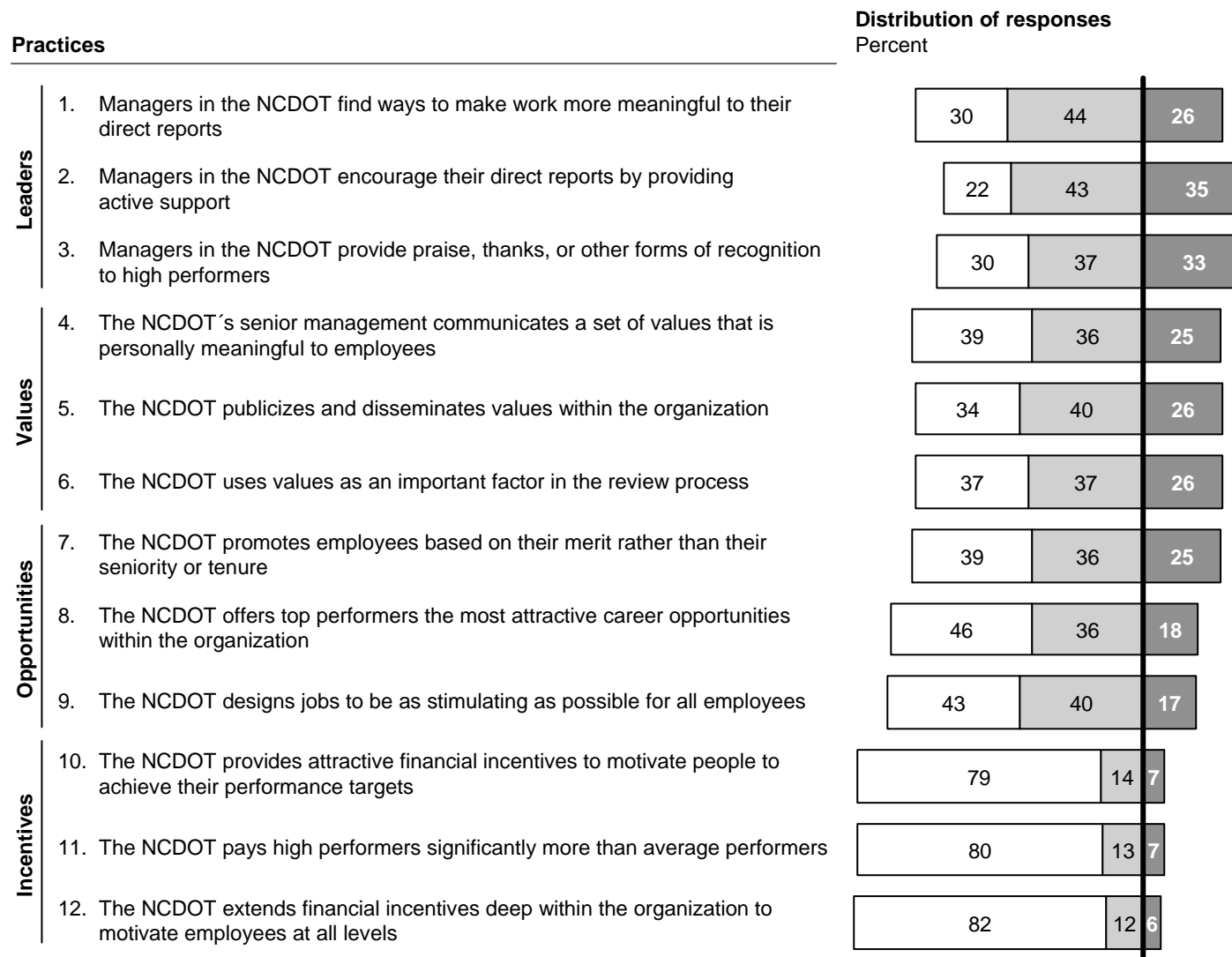
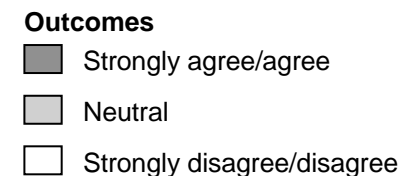
Source: Overall results from NCDOT Online OPP survey (n = 3274)

CAPABILITIES – COMBINED PRACTICES AND OUTCOMES



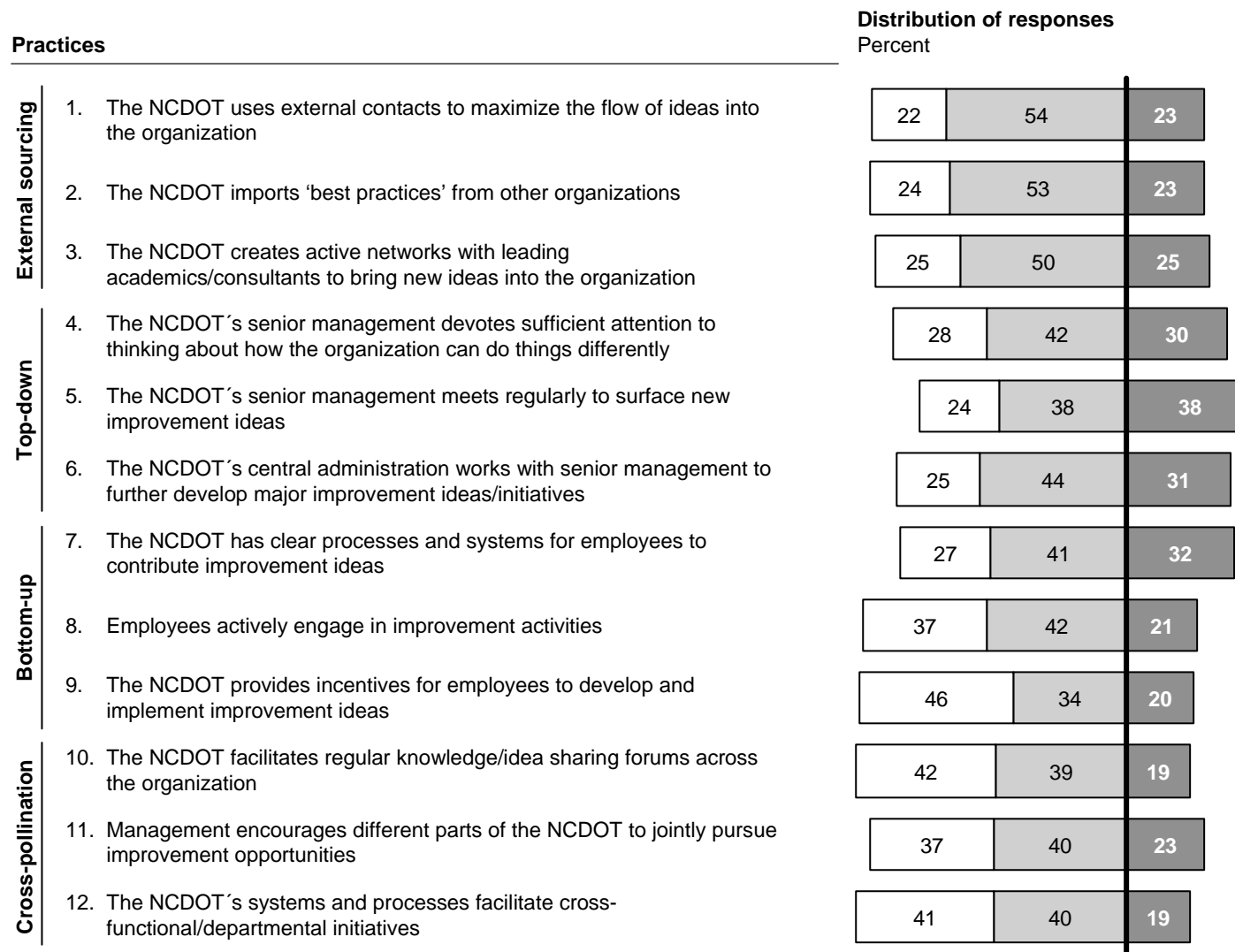
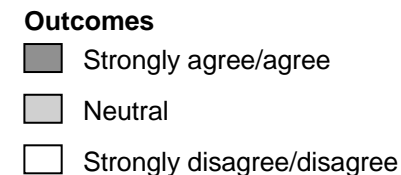
Source: Overall results from NCDOT Online OPP survey (n = 3274)

MOTIVATION – COMBINED PRACTICES AND OUTCOMES



Source: Overall results from NCDOT Online OPP survey (n = 3274)

INNOVATION – COMBINED PRACTICES AND OUTCOMES



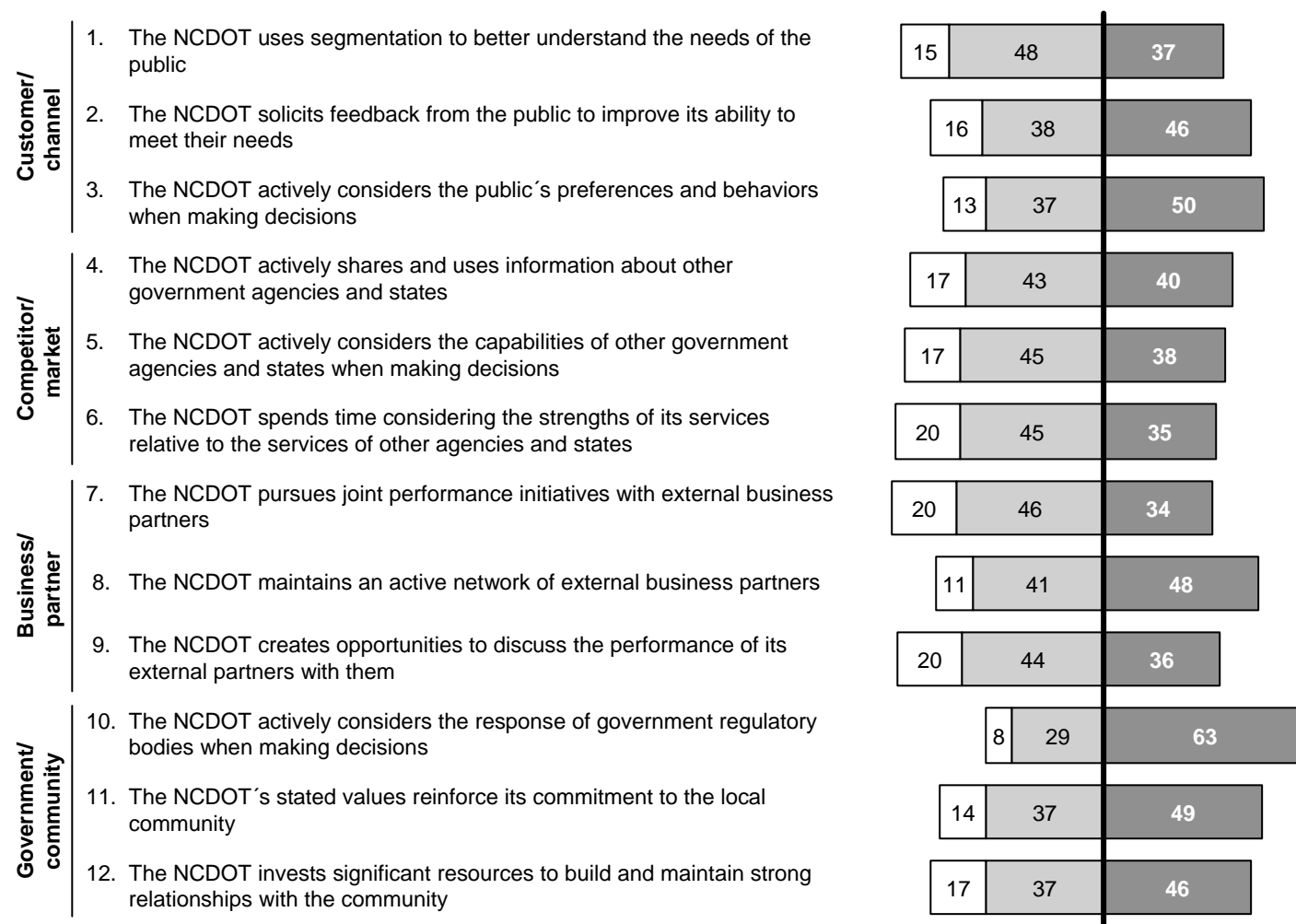
Source: Overall results from NCDOT Online OPP survey (n = 3274)

EXTERNAL ORIENTATION – COMBINED PRACTICES AND OUTCOMES

Outcomes

- Strongly agree/agree
- Neutral
- Strongly disagree/disagree

Practices



Source: Overall results from NCDOT Online OPP survey (n = 3274)

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Strategy Workshop with Steering Committee



Discussion Document

May 9, 2007

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MUCH GREAT WORK HAS ALREADY BEEN ACCOMPLISHED AT NCDOT TOWARDS STRATEGIC PLANNING

Charting a New Direction for NCDOT

North Carolina's
Long-Range Statewide Multimodal Transportation



NORTH CAROLINA
DEPARTMENT OF
TRANSPORTATION

New Perspectives.
New Opportunities.
A New NCDOT.

Provide a safe, modern and integrated transportation system that expands opportunities throughout the state in support of Gov. Easley's One North Carolina.

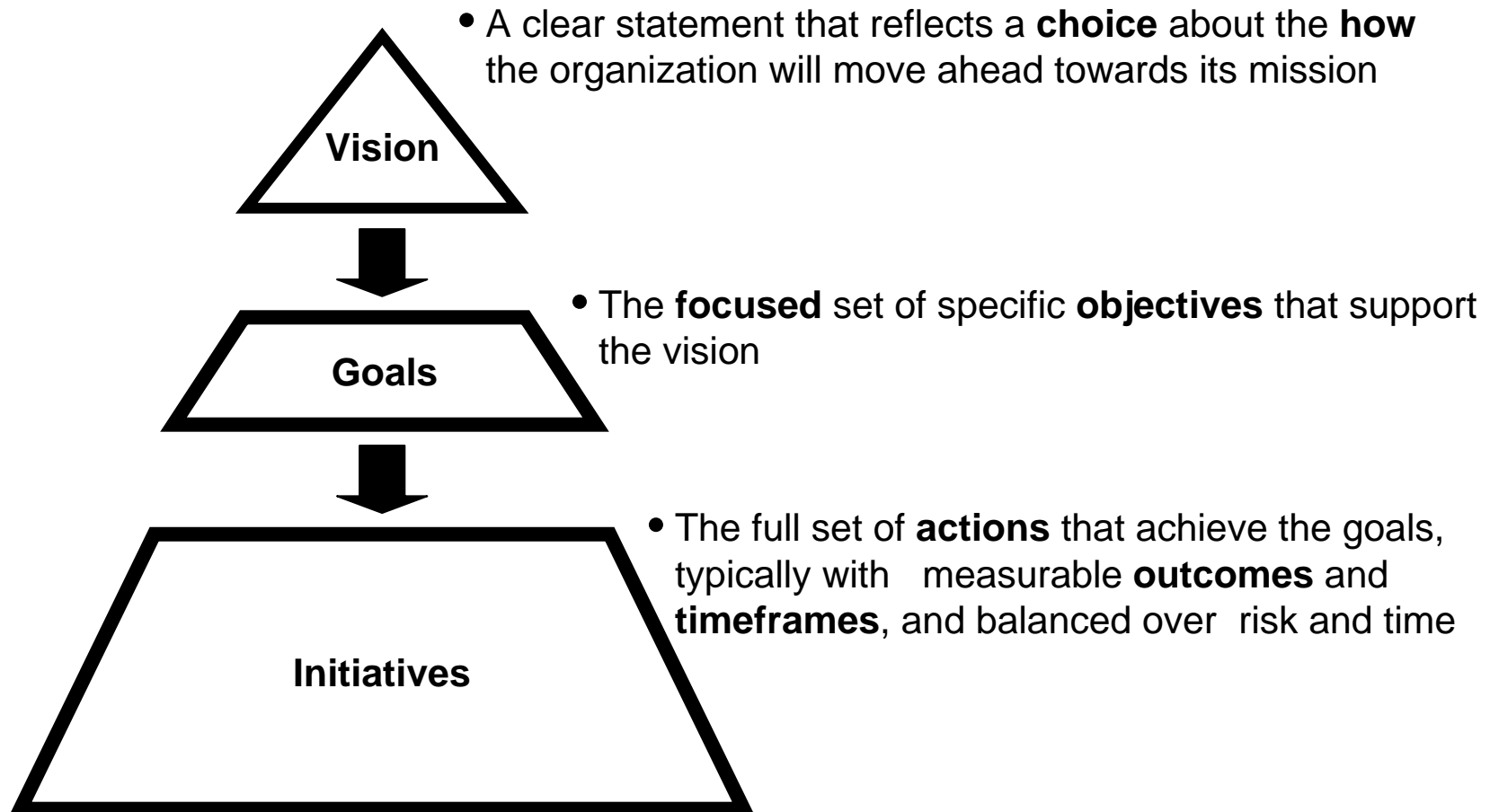
NCDOT CHALLENGE AND VISION

NCDOT has embarked on a transformation program to remake the agency, in light of the challenges it faces.

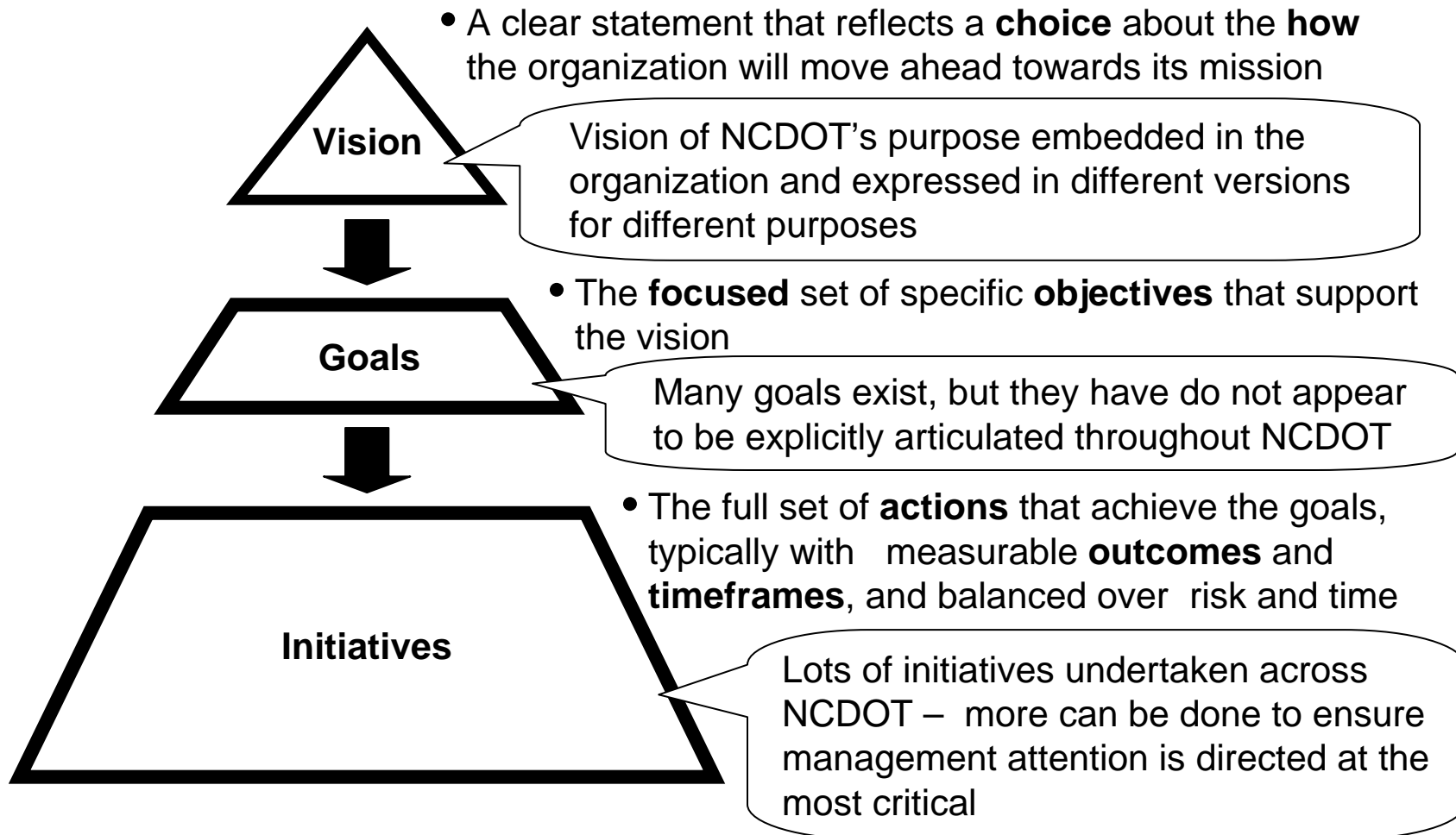
NCDOT's new Vision is to:

- Play a key role in the improvement of North Carolina's logistics system - offering more proactive, aggressive, integrated, traffic responsive, cooperative, automated, & integrated solutions by:
 - Establishing statewide standards for mobility / asset condition / safety; with varying standards for each travel tier and clear performance measures – highly visible to stakeholders

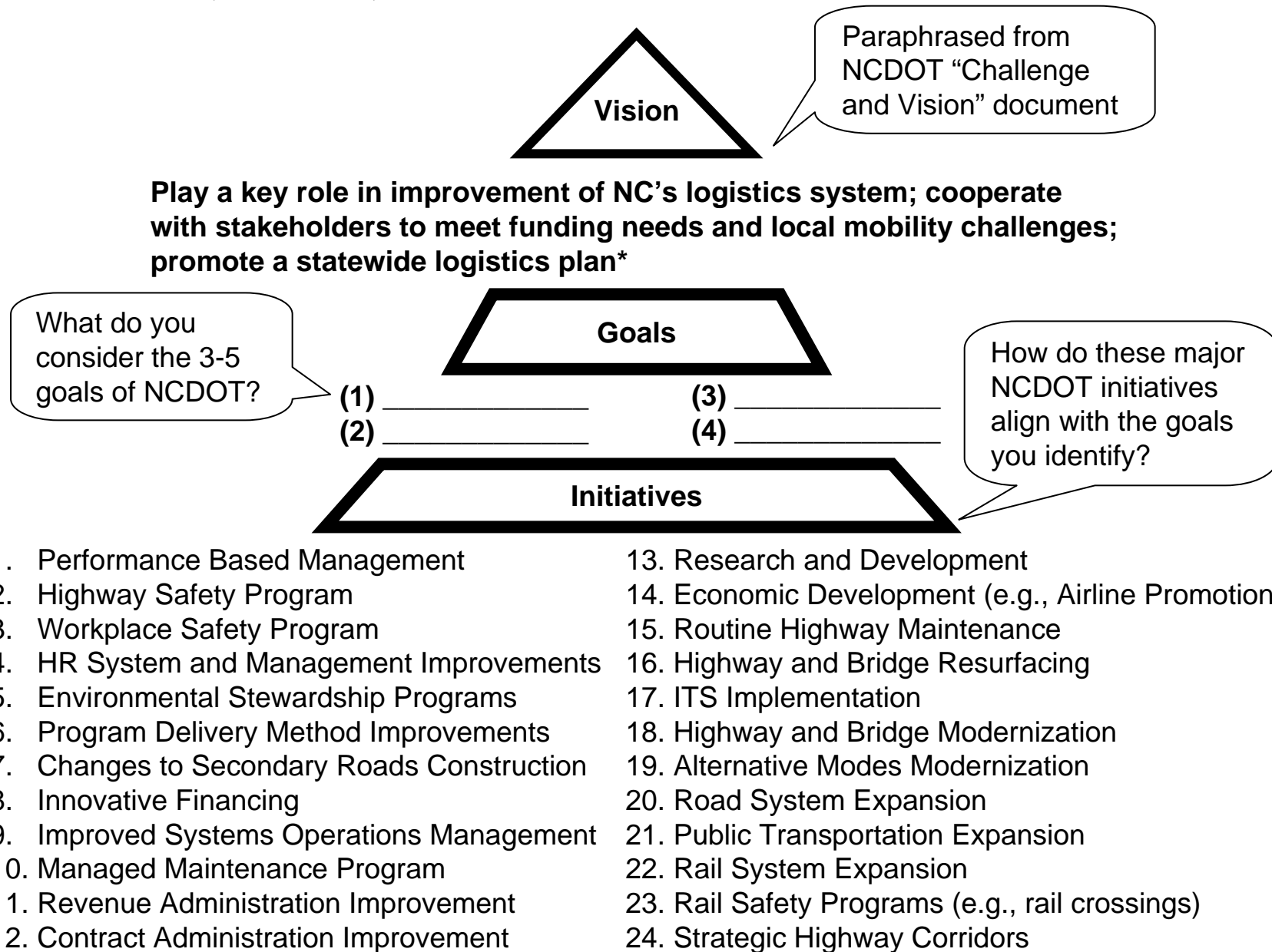
TAKING THIS WORK TO THE NEXT LEVEL REQUIRES AN INTEGRATED AND ALIGNED STRATEGIC PROCESS



INITIAL ASSESSMENT OF NCDOT SHOWS SOME STRENGTHS, SOME OPPORTUNITIES FOR IMPROVEMENT



NCDOT VISION, GOALS, AND INITIATIVES



NORTH CAROLINA'S STATEWIDE VISION POINTS TOWARD SEVERAL STRATEGIC PRIORITIES FOR NCDOT

Elements in North Carolina Statewide Agenda

- **Establishing an aggressive strategy for job creation and economic growth**
- Continuing our investments in education to build a skilled workforce
- Ensuring secure communities
- **Making government more efficient**
- **Improving our infrastructure**
- **Protecting the environment**
- Providing quality health care to those who can least afford it

If aligned with the statewide vision, NCDOT's strategy would emphasize:

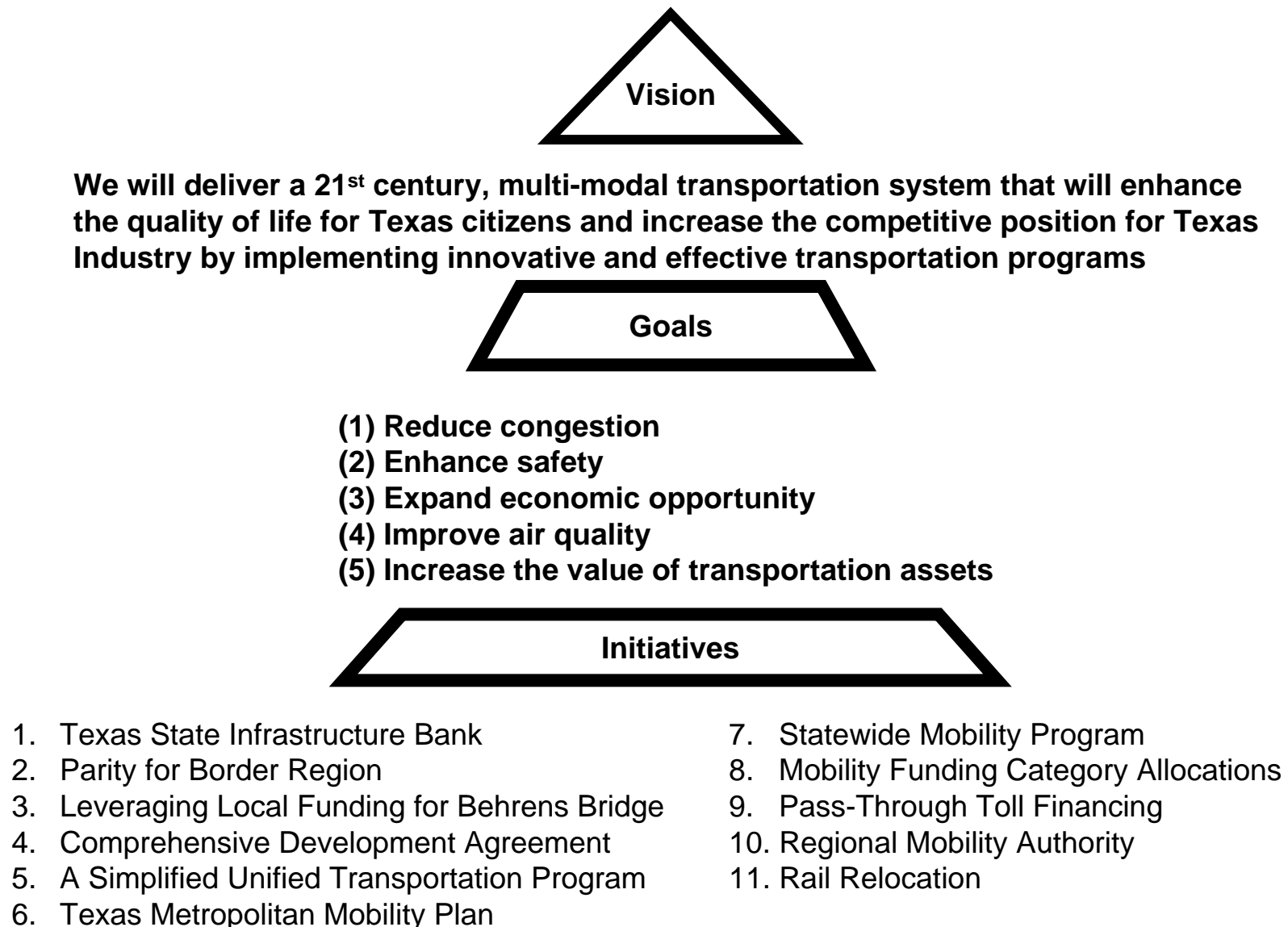
- Economic development
- Increased efficiency
- Infrastructure improvement
- Environmental protection

EXAMPLE OF AN ALIGNED STRATEGY #1 – US ARMY

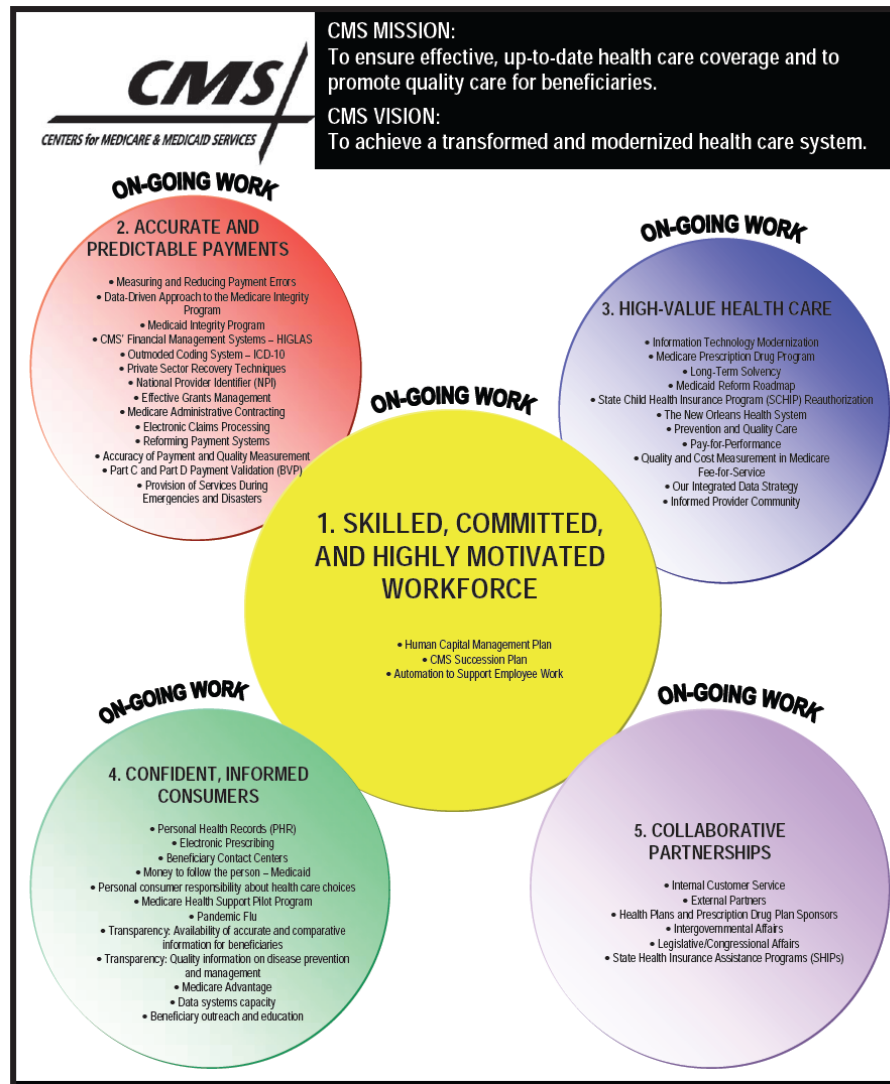


Source: US Army website; citing 2006 Quadrennial Defense Review, Office of the Secretary of Defense, February 2006.

EXAMPLE OF AN ALIGNED STRATEGY #2 – TEXAS DOT

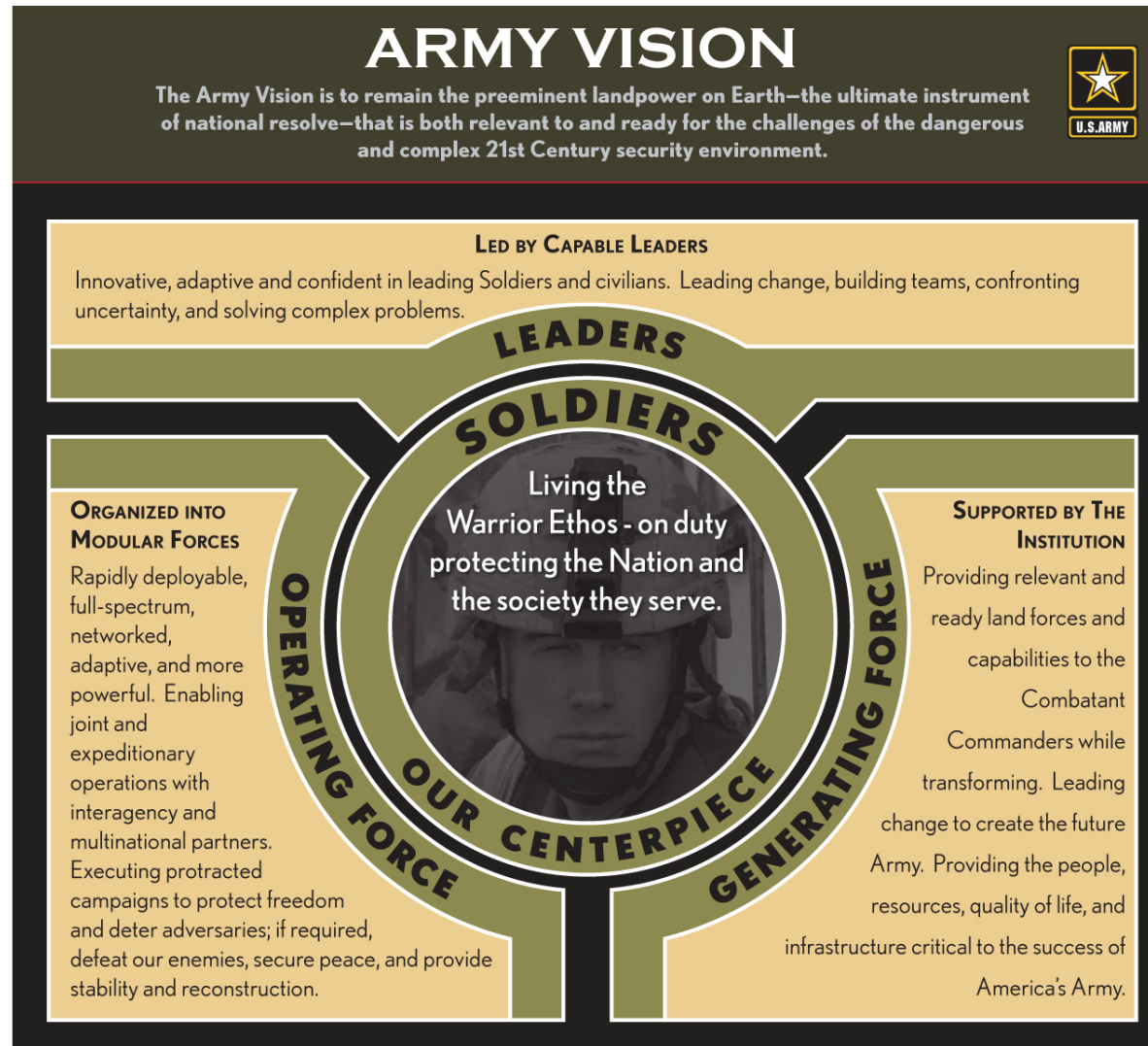


EXAMPLE OF AN ALIGNED STRATEGY #3 – CENTERS FOR MEDICARE AND MEDICAID



Each of CMS's 5 goals has a discrete set of initiatives underway to make achieving that goal possible

VISION EXAMPLE – US ARMY



Source: US Army

NCDOT COMMUNICATIONS OF DIAGNOSTIC RESULTS TO INTERNAL AND EXTERNAL STAKEHOLDERS

	Communication/Forum	Timing	
All-employee communication	<ol style="list-style-type: none"> 1. All-employee email 2. All-employee memo 	<p>June 2007</p> <p>June 2007</p>	
Small group presentations	<ol style="list-style-type: none"> 1. Executive Committee 2. Transportation Management Team 3. Steering Committee and Specialist team 4. Division Engineers 5. Human Resources Department 	<p>May 2007</p> <p>June 2007</p> <p>June 2007</p> <p>June 2007</p> <p>July 2007</p>	<p>List of communications is non-exhaustive and includes a mix of presentations led by NCDOT, McKinsey, and NCDOT jointly with McKinsey</p>
External presentations	<ol style="list-style-type: none"> 1. Small group board member discussions 2. Private sector stakeholders 3. Multiple legislators, including: <ul style="list-style-type: none"> - House - Senate - Democrats - Republicans 5. Transportation Leadership Team 6. Office of the Governor 7. Office of State Personnel 	<p>June 2007</p> <p>July 2007</p> <p>July 2007</p> <p>July 2007</p> <p>July 2007</p> <p>July 2007</p> <p>July 2007</p>	

Appendix B: Materials from the Design and Delivery Phase

North Carolina Department of Transportation

OBJECTIVE

The diagnostic phase of McKinsey's work showed significant opportunities to improve the clarity of NCDOT's strategic direction and to strengthen its organizational performance. To capture those opportunities, McKinsey collaborated with the Department in embarking on a significant transformation program, to help NCDOT refine its strategy, better coordinate its core structure and processes, build the skills and capabilities of its employees, and change Department mindsets and behaviors.

This transformation effort constituted the design and delivery phase of McKinsey's work.

METHODOLOGY AND APPROACH

Throughout the design and delivery phase, McKinsey's focus was on building NCDOT's own capacity for sustaining organizational changes. McKinsey firmly believes that the success of any transformation effort must be rooted in the organization itself, not dependent on ongoing outside help.

To that end, McKinsey concentrated its efforts on providing NCDOT's transformation leaders, individually and collectively, with the tools necessary to support change in the long-term. For six months, a full-time team of McKinsey consultants worked side-by-side with TMT members to help them tailor NCDOT's change efforts, based on best practices from the private sector, case examples from the public sector, and consultations with experts on transportation, organizational change, and corporate strategy. McKinsey brought many of these experts to NCDOT to hold workshops with TMT members, on issues ranging from strategic planning, to talent management, to performance metrics, to organizational design. McKinsey also held numerous skill-building workshops with TMT members to build their capabilities in leadership, strategic thinking, and communications.

KEY CHANGES AND INITIATIVES

McKinsey's side-by-side work with the TMT focused on five broad changes. Those changes are listed below.

- Alignment of strategic direction with new mission and goals
- Streamlining of project delivery
- Designing the organization to become more productive
- Increased accountability and visibility for performance
- Improved talent management

The exhibits in Appendix B, immediately following this page, offer a full view of each of the initiatives undertaken to fulfill the changes listed above. Materials included in Appendix B were created by McKinsey in collaboration with members of the TMT. Document formats may vary.

CONTENTS

Number	Document Title
B1-1	Transformation Management Team Kickoff Meeting
B1-2	Vision Statements and Goals: Context and Recommendations
B1-3	Strategic Prioritization Process Summit
B1-4	Synthesis of September 10, 2007 Prioritization Summit
B1-5	Perspective on Funding Sources for NCDOT
B1-6	Organizational Effectiveness Options
B1-7	Building Efficiencies and Productivity at NCDOT
B2-1	Strategic Prioritization Process & Planning Cycles
B2-2	Leadership Team- Strategic Prioritization Process

B2-3	Implementation Plans for Pilot Projects
B2-4	Performance Metrics & Management Summary Working Document
B2-5	Talent Management Policy Recommendations
B2-6	Talent Management Team: High Level Approach- Performance Management Review Process
B2-7	Sample Leadership Planning Process
B2-8	Talent Management Initiatives—Ownership and Integration with HR
B2-9	NCDOT Involvement of Internal and External Stakeholders in Transformation

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Transformation Management Team Kickoff Meeting



June 12, 2007

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OBJECTIVES AND AGENDA FOR TODAY'S DISCUSSION

Objectives

- Understand the context and aspirations of the transformation
- Introduce the Transformation Management Team (TMT)
- Agree on our priorities as a team
- Understand how we're going to work together

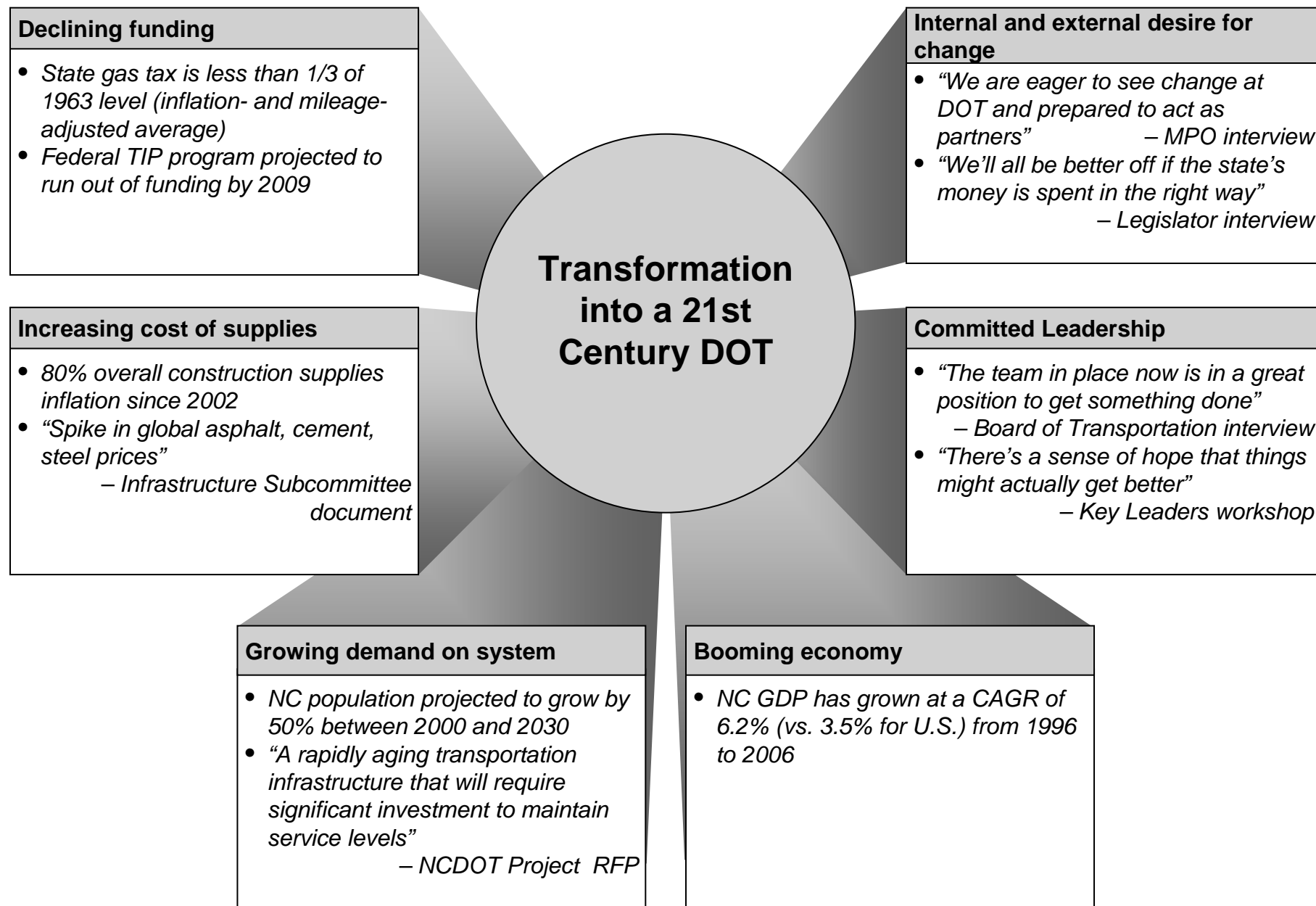
Agenda

- | | |
|--|----------------|
| • Introductions and Overview | 9:00 to 9:30 |
| • Background | 9:30 to 10:15 |
| • TMT: Organization, Roles, and Working Approach | 10:15 to 11:00 |
| • Lessons on transformation and aspiration setting | 11:00 to 12:00 |
| • Lunch | 12:00 to 12:30 |
| • Detail on TMT workstreams | 12:30 to 2:45 |
| • Break | 2:45 to 3:00 |
| • Next steps | 3:00 to 3:15 |
| • Group meetings | 3:15 to 5:00 |

WHY IS NCDOT LAUNCHING A TRANSFORMATION MANAGEMENT TEAM

- Secretary Tippet and his executive team determined that the challenges and opportunities facing the NCDOT required a proactive response
- As a first step, NCDOT's leadership called for an outside-in assessment– a diagnostic– of its current strategy and organization
- The diagnostic concluded that NCDOT had significant opportunities to improve its service to North Carolinians. It also determined that NCDOT was at a strong starting point for transformation
- In response to the diagnostic and in consultation with its stakeholders, NCDOT's leadership determined it had a mandate for transformation and that immediate action was required
- The TMT has been launched to carry forward this mandate and move quickly to design and implement NCDOT's transformation

TODAY'S NCDOT CHALLENGES REQUIRE A PROACTIVE RESPONSE



DIAGNOSTIC IDENTIFIED SIGNIFICANT OPPORTUNITIES TO IMPROVE PERFORMANCE

A strong starting point for transformation

1. Near-term budget stabilized
2. External stakeholders supportive of change
3. Key leaders committed to change
4. Technical skills necessary to deliver
5. Employees proud to serve, with a “can do attitude”

Significant opportunities to improve service to North Carolinians


1. Set clear direction by cascading an explicit vision and specific goals throughout the organization
2. Development of a more targeted and strategic portfolio of projects focused on those most critical to achieving the strategic vision and goals
3. Introduction of greater prioritization, accountability and coordination in core processes
4. Alignment of structure, systems and mindsets to achieve vision

THE POSSIBILITIES OF TRANSFORMATION

EXAMPLES

This transformation could...

- Create a transportation infrastructure that makes North Carolina the most attractive state in the Southeast for businesses and citizens
- Establish NCDOT as a national model of efficient and effective government. E.g.,
 - Prioritize projects and initiatives based on strategic vision and goals
 - Shorten project delivery time
- Unlock the potential of thousands of NCDOT employees
 - Position NCDOT among the employers of choice in North Carolina
 - Create opportunities to grow strong leaders
 - Recognize outstanding performance
- Make NCDOT the most respected government agency in North Carolina



The TMT has a mandate to define and implement a program of initiatives to accomplish dramatic change

OBJECTIVES AND AGENDA FOR TODAY'S DISCUSSION

Objectives

- Understand the context and aspirations of the transformation
- Introduce the Transformation Management Team (TMT)
- Agree on our priorities as a team
- Understand how we're going to work together

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THE DIAGNOSTIC COMPREHENSIVELY ENGAGED NCDOT EMPLOYEES, STAKEHOLDERS AND EXPERTS

- **Quantitative Survey** of the Organizational Performance Profile completed by **8,977 employees**, more than 70% of the NCDOT
- **60 Senior Leader interviews** across the organization, including the Board, to understand strategic priorities and organizational strengths and challenges
- **9 focus groups** with transportation workers, supervisors and technicians, DMV employees, VERTs, and administrative staff (112 total participants)
- **2 Steering Committee meetings** and **4 Specialist Team meetings**
- **4 diagnostic Key Leaders workshops** with managers from DMV, DOH, Preconstruction and Central Ops, and Division Engineers (93 total participants)
- **>10 consultations** with McKinsey's global strategy and organizational practice experts
- **15 “deep structured interviews”** with employees from all levels of the organization to probe in-depth ‘root causes’ of employee perceptions
- **>20 conversations** with individuals in the Governor's Office, Legislature, MPOs, and business to understand concerns and priorities of **external stakeholders**

DIAGNOSTIC FOUND OPPORTUNITIES FOR IMPROVEMENT THROUGHOUT ORGANIZATION



Vision and Goals

- Vision and goals are currently numerous and occasionally inconsistent
- Vision and goals are not linked to broader, long-term vision for North Carolina
- Vision and goals are not communicated explicitly or cascaded into specific expectations for managers



Portfolio of Projects and Services

- Projects and services are not explicitly linked with goals
- NCDOT relies too heavily on existing funding sources without sufficiently exploring alternative sources of funding
- The NCDOT's broad activities lack clear focus and priorities



Core Processes (E.g., Decide, Design, Deliver)

- Strategic planning process is ad hoc and reactive
- Funding processes are not flexible enough to align resources with goals
- Project design/delivery processes slowed by lack of prioritization, accountability, and coordination
- Operational processes lack sufficient metrics to ensure accountability



Organizational Structure, Functions and Mindsets

- Organizational structure creates silos in some processes (e.g., project design and delivery), fails to create critical support roles (e.g., strategic planning), allows unclear reporting relationships, and support illogical geographic groupings
- Talent systems are failing to recruit and retain critical talent, drive employee performance and develop managers
- Internal and external communications are not sufficiently proactive and lack sufficient budget
- Employee mindsets are frequently risk averse, reactive, and silo'd

DIAGNOSTIC FINDING- PROGRESS HAS BEEN MADE IN CREATING NEW VISIONS AND GOALS, BUT THESE ARE NOT ALWAYS CONSISTENT



NCDOT CHALLENGE AND VISION

NCDOT has embarked on a transformation program to remake the agency, in light of the challenges it faces.

NCDOT's new Vision is to:

- Play a key role in the improvement of North Carolina's logistics system - offering more proactive, aggressive, integrated, traffic responsive, cooperative, automated, & integrated solutions by:
 - Establishing statewide standards for mobility / asset condition / safety; with varying standards for each travel tier and clear performance measures – highly visible to stakeholders

- NCDOT's strategy documents express similar but not entirely consistent themes
- Goals have been expressed in some forms but are not explicit
- When asked to articulate NCDOT goals, the steering group offered 10 divergent responses

DIAGNOSTIC FINDING- ORGANIZATIONAL PROCESSES AND FUNCTIONS LACKING IN PRIORITIZATION, ACCOUNTABILITY, AND COORDINATION

Prioritization

- *“Clear prioritization could cut 3 years off the big projects.”*
– Preconstruction manager
- *“What we work on depends on who’s screaming the loudest.”*
– Preconstruction manager
- *“I arrive every day to a whole new set of emails pressuring me to do work on something different from what I was working on yesterday.”*
– Preconstruction supervisor

Accountability

- Only 37% of employee survey respondents believe that each area of NCDOT has explicit targets for key performance indicators.
- *“It’s hard to have explicit metric because schedules and budgets keep changing.”*
– Construction manager
- *“We don’t always manage directly to metrics mostly because units face factors outside their control.”*
– Preconstruction manager

Coordination

- Only 19% of employee survey respondents believe that NCDOT’s systems and processes produce cross-functional/departmental initiatives.
- *“We throw things over the wall here. Everyone’s accountable to their tribe.”*
– Division Engineer
- *“Imagine two guys in a garage full of car parts, with a black curtain that splits the garage in half and these guys have to build a car by passing notes to each other from either side. That’s Preconstruction.”*
– Preconstruction engineer

DIAGNOSTIC FINDING- AD-HOC STRATEGIC PLANNING PRODUCES LACK OF PROJECT PRIORITIZATION

STIP example

TRANSPORTATION PROGRAM				GATES COUNTY			
ROUTE/CITY	ID. NO. / BREAK	LOCATION - DESCRIPTION - MILEAGE - BREAK	WORK TYPE	FUNDING SOURCE	COST ESTIMATES (THOU)	SCHEDULE (FISCAL YEARS)	
RURAL PROJECTS							
US 13	R-2507*	US 158 TO THE VIRGINIA STATE LINE. WIDEN TO MULTI-LANES. 15.5 Mile(s)	PLANNING/DESIGN MITIGATION	T	1,400	PRIOR YEARS IN PROGRESS	
					3,301	UNFUNDED	
	A	US 158 IN WINTON TO US 158 BYPASS IN TARHEEL.	RIGHT-OF-WAY MITIGATION	T	8,000	FY 10	
					2,889	FY 12	
			CONSTRUCTION	T	28,400	FY 13	
B		US 158 BYPASS IN TARHEEL TO SR 1202 (EURE ROAD-GATES SCHOOL ROAD).	RIGHT-OF-WAY CONSTRUCTION	T	2,300	UNFUNDED	
					12,500	UNFUNDED	
	C	SR 1202 (EURE ROAD-GATES SCHOOL ROAD) TO VIRGINIA STATE LINE.	RIGHT-OF-WAY CONSTRUCTION	T	3,800	UNFUNDED	
					13,100	UNFUNDED	
STRATEGIC HIGHWAY CORRIDOR				TOTAL PROJECT COST		73,490	
US 158	R-2578*	US 13 TO NC 32 IN SUNBURY. WIDEN TO MULTI-LANES. 15 Mile(s)	RIGHT-OF-WAY CONSTRUCTION	T	14,000	UNFUNDED	
					49,000	UNFUNDED	
STRATEGIC HIGHWAY CORRIDOR				TOTAL PROJECT COST		63,000	
US 158	R-2579*	NC 32 IN SUNBURY IN GATES COUNTY TO US 17 AT MORGAN'S CORNER IN PASQUOTANK COUNTY. WIDEN TO MULTI-LANES. 15.6 Mile(s)	PLANNING/DESIGN		100	PRIOR YEARS IN PROGRESS	
			RIGHT-OF-WAY	T	8,400	FY 11	
			CONSTRUCTION	T	87,000	UNFUNDED	
STRATEGIC HIGHWAY CORRIDOR				TOTAL PROJECT COST		95,500	

"I know how my section prioritizes projects, but I'm not sure exactly how the sections outside of ours do it, or for that matter the sections outside of those"
– Preconstruction supervisor

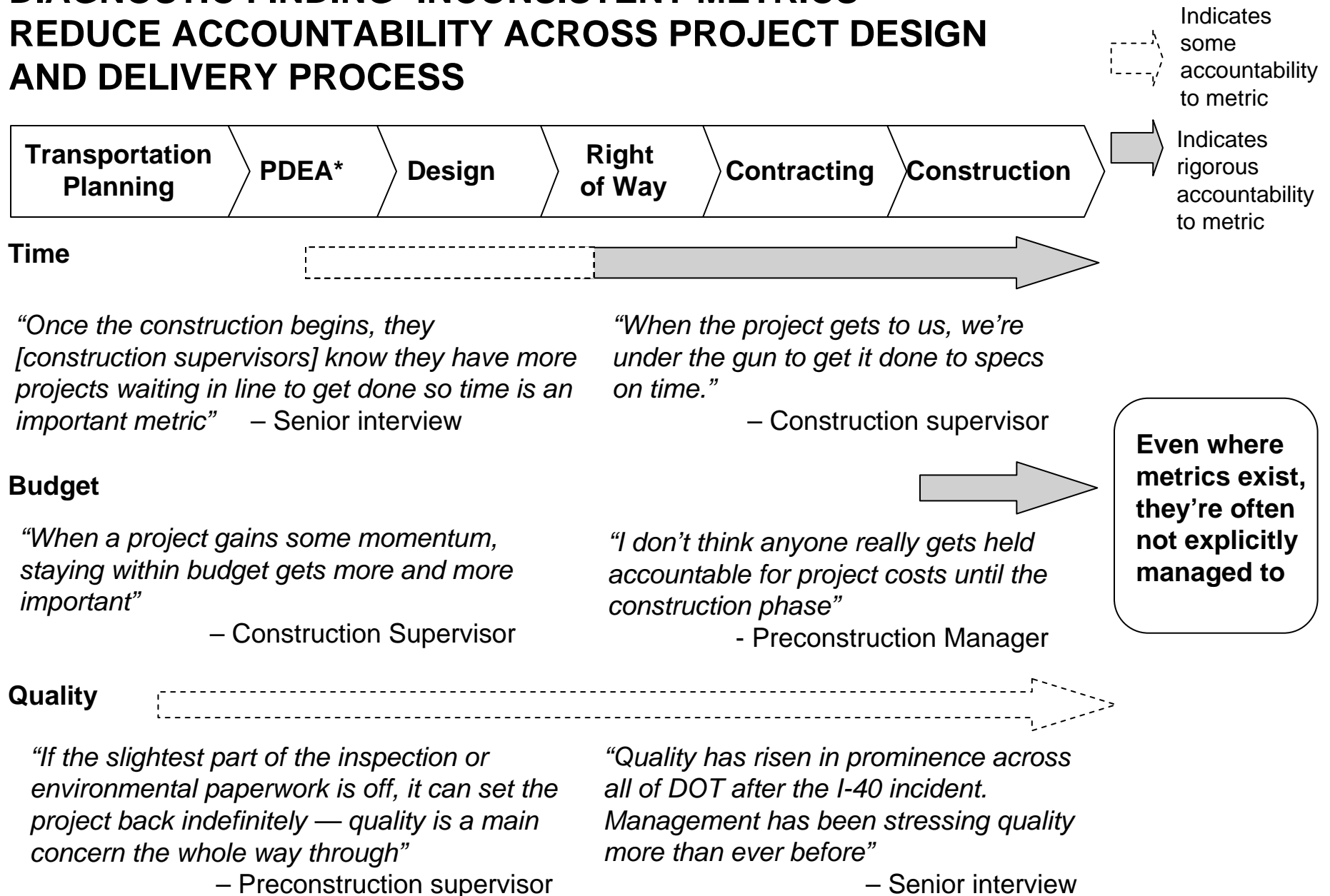
"We know the trouble spots in our division where the serious problems are, so why are we doing random political projects?"
– Transportation technician

"Just tell us the 'why' of some of these project decisions by upper management, that's all we need"
– Administrative supervisor

"We never know what NCDOT's current priorities are, so it's hard for us to know where we stand"
– MPO Representative

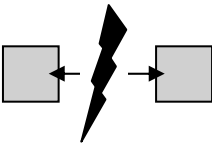
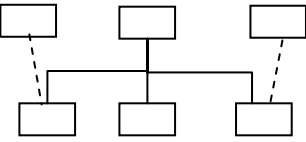
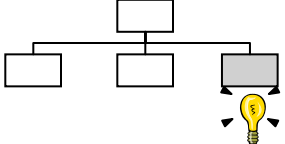
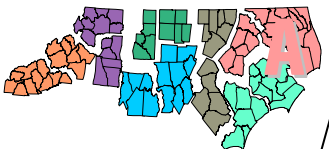
- Listing in STIP is alphabetical by county and expected date of completion
- No clear prioritization based on relative importance or criticality of project
- Lack of transparency internally and externally results

DIAGNOSTIC FINDING- INCONSISTENT METRICS REDUCE ACCOUNTABILITY ACROSS PROJECT DESIGN AND DELIVERY PROCESS



* Schedule measured in PDEA but deadlines frequently slide due to external factors

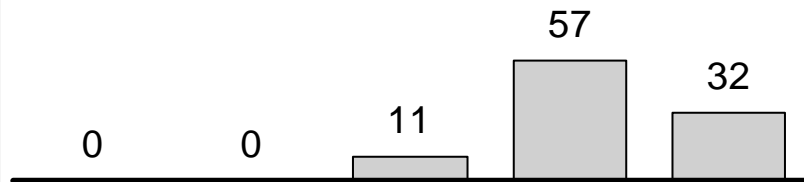
DIAGNOSTIC FINDING NCDOT'S CURRENT STRUCTURE MAY COMPOUND MANY STRATEGIC AND PROCESS CHALLENGES

	Challenge	Example
Critical Links 	<ul style="list-style-type: none"> Some activities that require coordination are not explicitly linked (e.g., within a single managerial boundary or through another formal coordination mechanism) 	<ul style="list-style-type: none"> No end-to-end owners of projects Engineers report directly to units instead of project managers
Reporting lines 	<ul style="list-style-type: none"> Some critical roles have additional "dotted-line" reporting relationships that may hinder their accountability 	<ul style="list-style-type: none"> Best engineers often called on to help Turnpike Authority State restrictions inhibit IT customer service orientation
Critical functions 	<ul style="list-style-type: none"> Lack of organizational units to undertake critical activities 	<ul style="list-style-type: none"> No dedicated strategic planning group No dedicated internal communications group
Geographic Organization 	<ul style="list-style-type: none"> Division lines may not logically support effective strategy and process implementation 	<ul style="list-style-type: none"> Raleigh, Durham, Chapel Hill area split into two 14 divisions in North Carolina compared to 9 in Virginia Rural/urban regions

DIAGNOSTIC FINDING- TALENT MANAGEMENT FUNCTION DOES NOT PROMOTE PERFORMANCE OR DEVELOPMENT

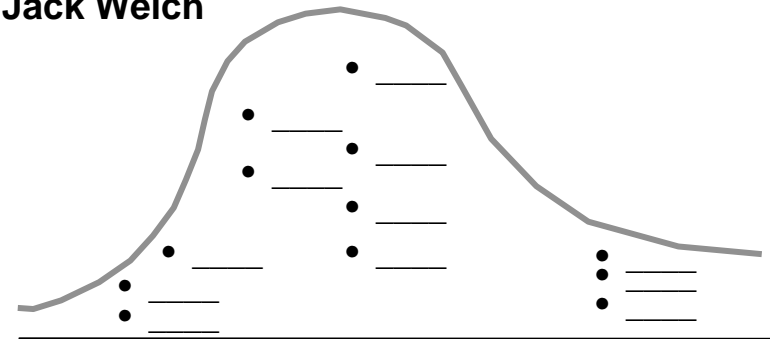
NCDOT performance evaluations skew high compared to best practices . . .

2006 NCDOT performance rating distribution
Percent, out of all employees



20% of 2006 voluntary attritions rated Outstanding
Very good and good performers receive no performance incentives
Less than 1% terminated every year

Performance rating distribution at GE under Jack Welch



“Bottom 10”

Bottom 10% terminated every year

“The Vital 70”

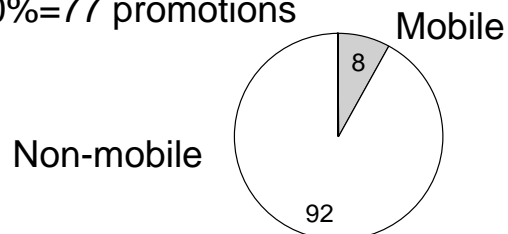
B players should get annual increases recognising their contributions

“Top 20”

“We lose less than 1% of our A’s per year”

... And manager mobility is low

Only 8% of DOT managerial promotions were to other units within the department
100%=77 promotions



At best practice private sector organizations:

- Managers are encouraged to transfer every three years
- Mobility is a prerequisite for senior management

EMPLOYEES REPORT INTERNAL INFORMATION VACUUM

EXAMPLE FROM DIAGNOSTIC

Middle managers

Limited support for internal communications

- No budget allocated for staff or internal communications across DOT

- Published literature considered unclear

- Mass communications considered forced

"The top management should explain changes and get face-to-face communication with managers"

"I'd really like to see more information sharing for safety (and other) best practices across DOT"

"Intra-department communication is a big problem. There's a lot of store piping that causes overlap and waste in processes"

"A lot of decisions get made at higher levels without a lot of communication"

"If I were Secretary for a day, I would put out more communication from DOT about what strategy and vision is for the future"

Front line workers

"Can we reduce the widening gap between front lines and management? I'm talking about a presence gap--we don't see or hear from anyone higher than our immediate supervisors."

"Somehow we need to fix the lack of communication coming from upper management."

"There needs to be a lot better communication. I am tired of all the heresay, I want to hear something firm."

"Messages trickle down from the top management, but communication blockages along the way keep the messages from reaching us. I wish we could hear it direct from the top sometimes."

CONCLUSIONS OF THE DIAGNOSTIC

NCDOT must move quickly to...

- Launch Transformation Management Team (TMT) to lead design and implementation of change initiatives
- Lead the following groups of change initiatives through the TMT
 - State vision and goals explicitly and then develop corresponding alternative “strategic blueprints”, with implications on scope of activities, prioritization, funding and organization.
 - Address improvement opportunities identified in critical organizational functions, e.g., strategic planning/prioritization, performance management, and talent management
 - Continue a proactive information management program regarding the transformation effort
 - Additional high priority change initiatives for possible inclusion in TMT

OBJECTIVES AND AGENDA FOR TODAY'S DISCUSSION

Objectives

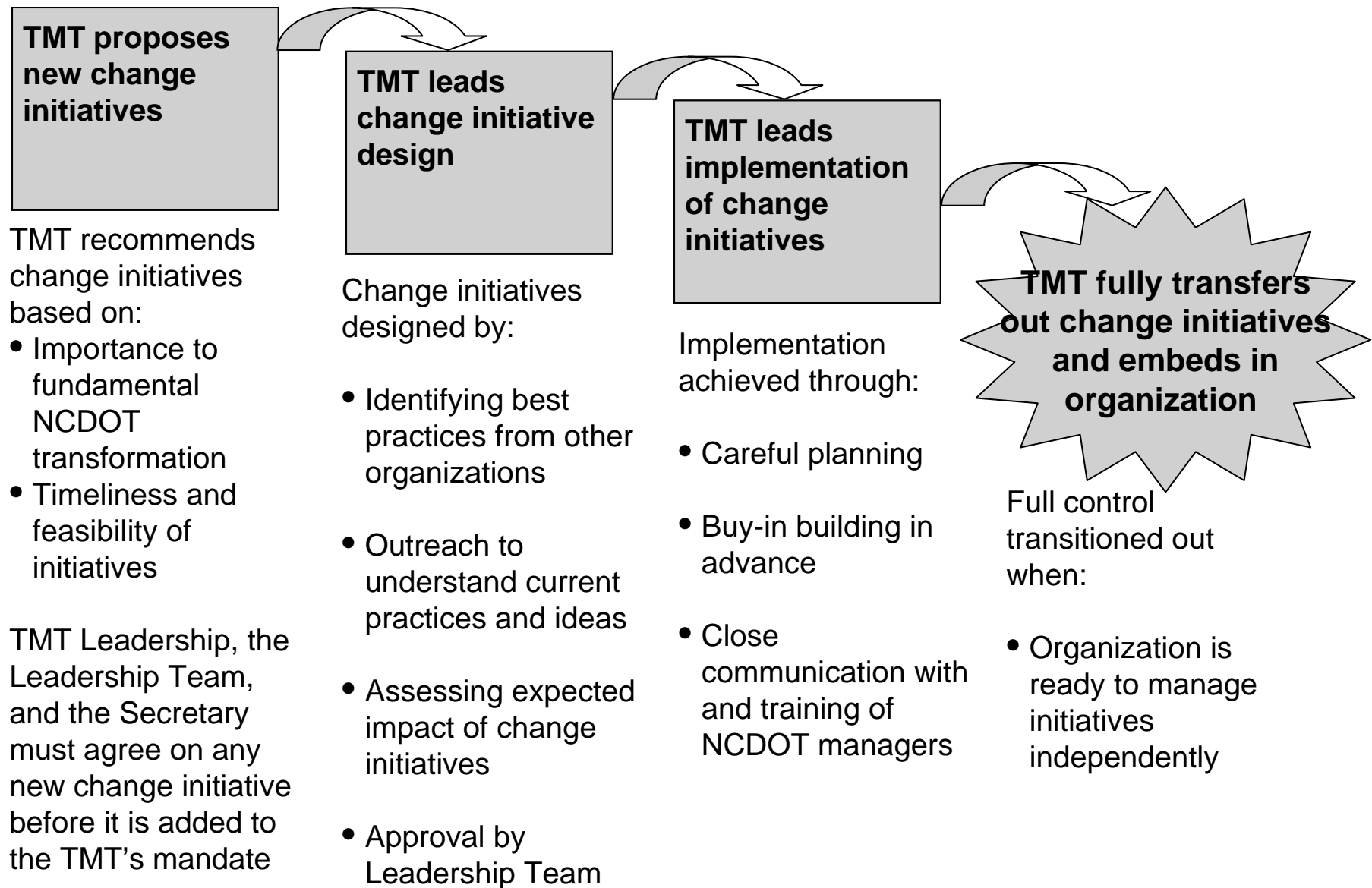
- Understand the context and aspirations of the transformation
- Introduce the Transformation Management Team (TMT)
- Agree on our priorities as a team
- Understand how we're going to work together

Agenda

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| • Group meetings | 3:15 to 5:00 |

HOW THE TMT WILL MAKE CHANGE HAPPEN

FOR DISCUSSION

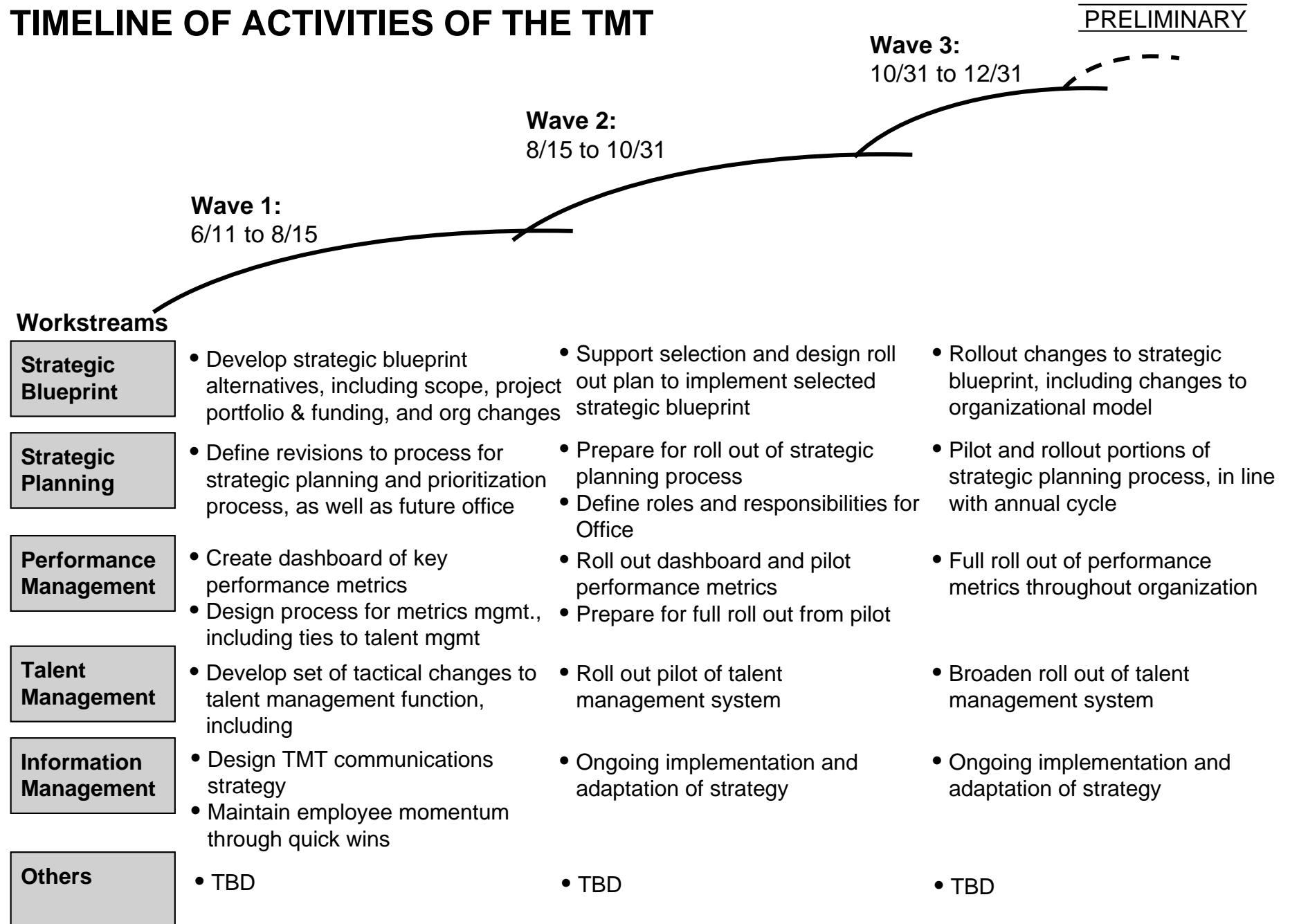


THE LEADERSHIP TEAM HAS IDENTIFIED FIVE CORE CHANGE INITIATIVES FOR LAUNCH BY TMT

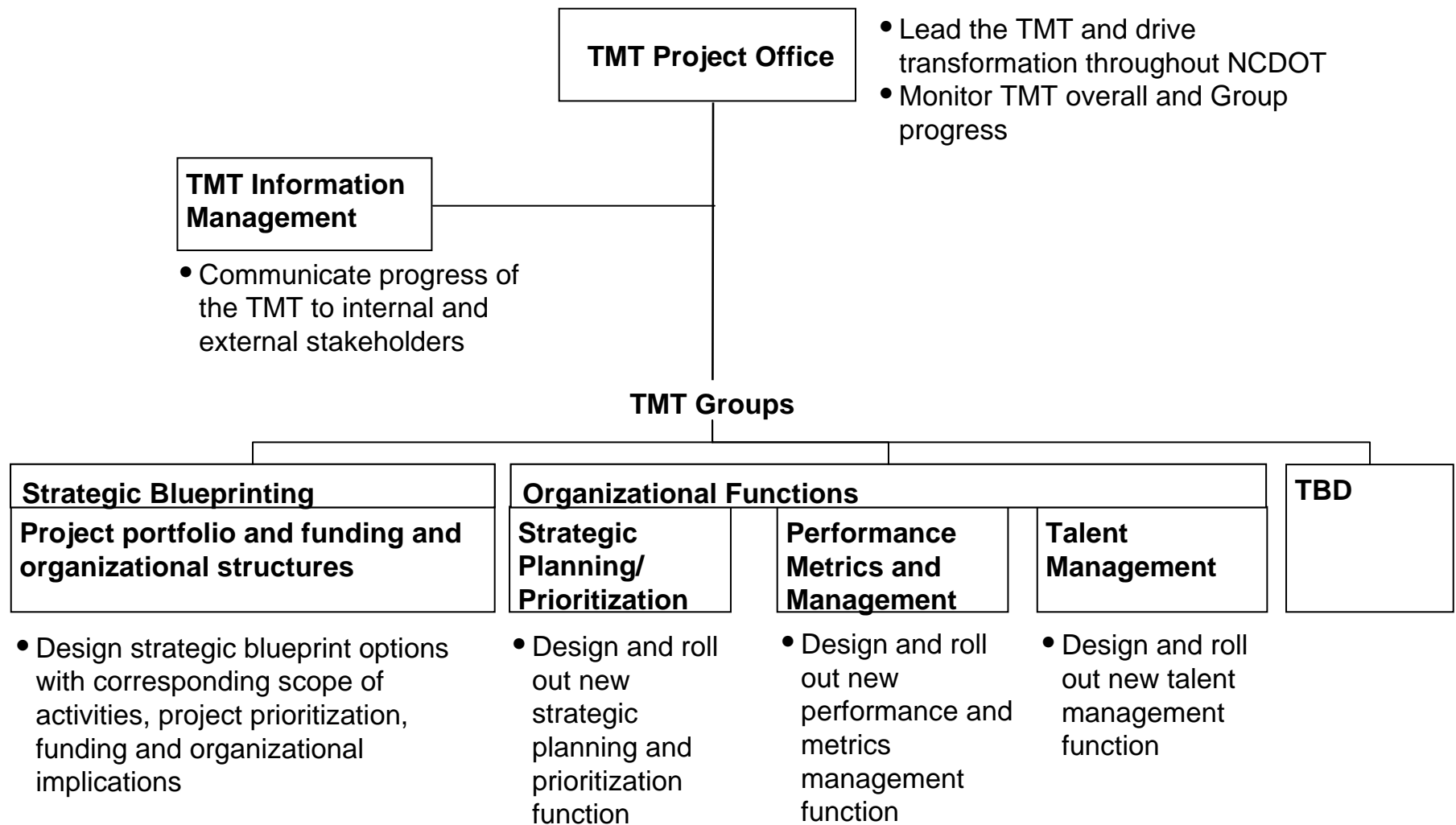
PRELIMINARY

Change initiatives	Objectives
Strategic Blueprint	<ul style="list-style-type: none"> • Create set of criteria for prioritizing projects and initiatives based on strategic vision and goals • Develop funding scenarios that address strategic priorities, including potential opportunities for new sources of funds and changes to funding restrictions • Evaluate possible organizational changes to reach strategic goals, including defining key roles and responsibilities
Strategic Planning and Prioritization	<ul style="list-style-type: none"> • Design and roll out strategic planning and prioritization process that: <ul style="list-style-type: none"> – Allows NCDOT to create and annually refresh strategic plans based on its vision, goals, and evolving industry context – Gathers input from stakeholders in a systematic way, channeling political input to specific set of forums – Generates a transparent system for prioritizing projects
Performance Metrics and Management	<ul style="list-style-type: none"> • Design and roll out dashboard of high-level metrics tied to NCDOT vision and goals • Design process for reporting and managing to metrics • Design process for cascading of metrics throughout organization
Talent Management	<ul style="list-style-type: none"> • Design a rigorous performance review process tied to performance metrics • Design a process for succession and mobility planning • Make high level recommendations on talent value proposition, development/training
Information Management	<ul style="list-style-type: none"> • Share transformation information throughout NCDOT organization • Create proof-of-concept for lasting internal information sharing improvements

TIMELINE OF ACTIVITIES OF THE TMT



EACH GROUP WILL REPORT TO THE TMT PROJECT LEADER



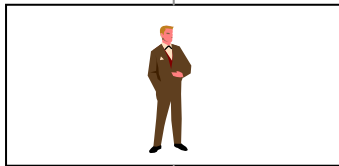
ROLES OF TRANSFORMATION TEAM

PRELIMINARY



Secretary & Leadership Team

- Offers high-level direction and guidance, including objectives and themes of transformation
- Approves organizational/functional changes required by transformation initiatives
- Approves key decisions to improve speed and ease of implementation
- Reviews performance of TMT Leader and members, providing feedback on performance



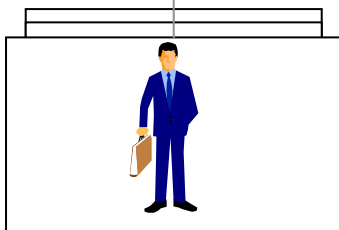
TMT leader

- Key executive responsible for leading program and 'the face' of the transformation
- Controls the effort and allocates resources, proposing priorities and direction for overall transformation
- Communicates progress to Secretary & Leadership Team and with internal and external stakeholders based on design of communication plan
- TMT Leader's Office:
 - Assures the Groups are provided with the required tools and people
 - Coordinates work streams and manages overlaps and conflicts
 - Monitors progress against workplan and assesses process quality



TMT Group Leader

- Responsible for designing and implementing initiatives to address Group's objective
- Communicates progress with TMT leader, Secretary & Leadership Team
- May have several project team members reporting to him



TMT member

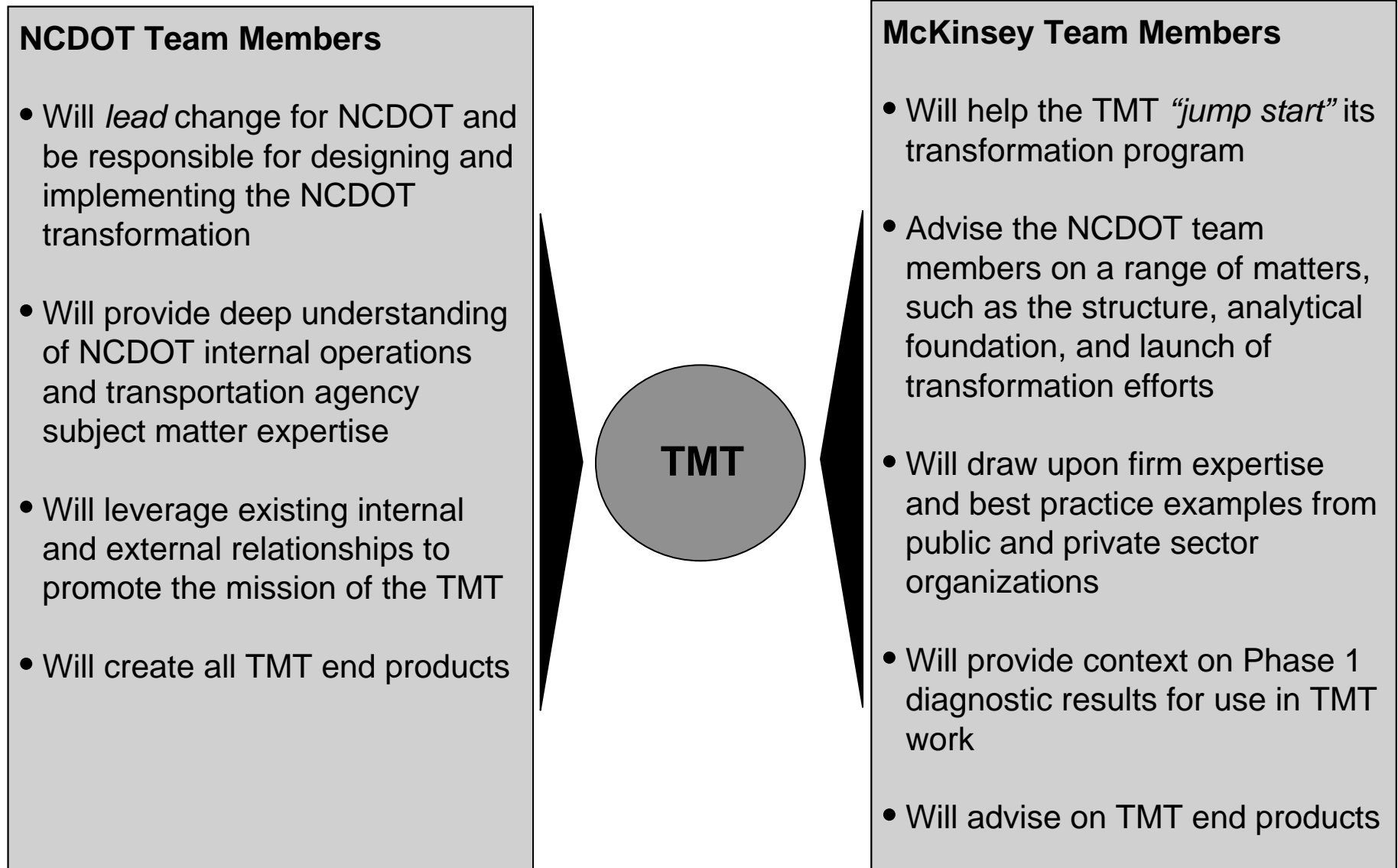
- Leads the design and implementation of assigned piece of the initiative
- Develops and executes against workflow with clear deliverables and deadlines
- Proactively identifies implementation barriers, suggests solutions, and participates in their removal

Roles will be flexible and evolve with the needs of the transformation

WHY WAS THIS GROUP SELECTED TO LEAD THE TMT?

- **Secretary Tippet** has made this effort ***THE*** priority for **NCDOT** – the transformation effort will be your opportunity to be part of leading groundbreaking change for the Department and for North Carolina
- **You are viewed as leaders in this organization** – and that is why you have been asked to join the TMT
- **You bring the entrepreneurial energy, can-do attitude, respect of your colleagues, and ability to get things done** that is needed for a successful transformation effort.
- **You are a leader who can operate across divisions, branches and units of NCDOT** to ensure that transformation is a collaborative effort not confined to any single part of the organization
- Because of your dedicated role in the transformation effort, **you will be seen by the organization as an ambassador for transformation**

THE TMT WILL START OFF COMPOSED OF MEMBERS FROM BOTH NCDOT AND MCKINSEY, WHO WILL HAVE DISTINCT ROLES



TMT CULTURE AND EXPECTATIONS

The culture of the TMT will be challenging and fast-paced...

- We will work quickly and decisively
- We will work informally
- Our efforts will be hypothesis-driven
- We will follow 80-20, about 80% of the time
- We will care passionately about finding a way to accomplish even the most 'impossible' milestones
- Open communication and idea-sharing will be the norm, rather than the exception
- We will always support each other whenever possible

...With high expectations of team members

- Confidentiality around the TMT's work is non-negotiable
- Open-mindedness will be an essential component of this initiative
- Flexibility and a willingness to give 110% effort is expected and crucial to success

TMT MEMBERS WILL ALSO LEARN SKILLS VALUABLE IN LEADING TRANSFORMATION

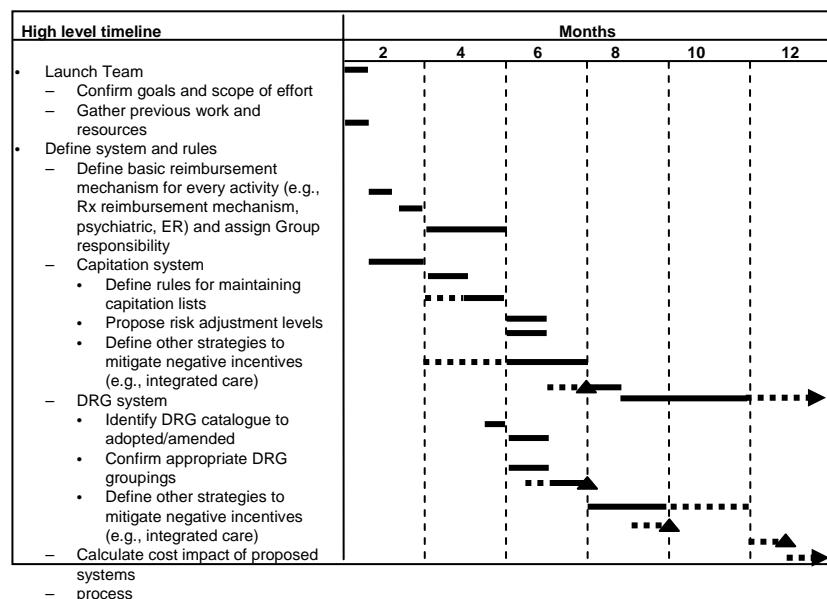
<u>Module</u>	<u>Description</u>
Delivery support tools	Introduces a collection of best practice frameworks that can be used to structure team efforts during transformation
Overarching project management	Presents a novel and generalizable approach to project management that can be applied across several industries
Strategic communication	Defines 'strategic communication' and maps out a means to employ it in leading an organization
Capability building	Describes institutional and individual capability and presents best practice examples of how to develop both in an organization
Coaching and mentoring	Provides lessons on the mindsets needed and methods used to promote effective coaching of lower level staff
Leading through teams	Examines the dimensions of leadership team effectiveness and describes techniques for getting maximum value as a leadership team

We plan to hold a series of 3-hour long sessions each Monday afternoon during the transformation process

TMT GROUPS WILL DEVELOP A DETAILED WORKPLAN TO INFORM OVERALL TMT TIMELINE

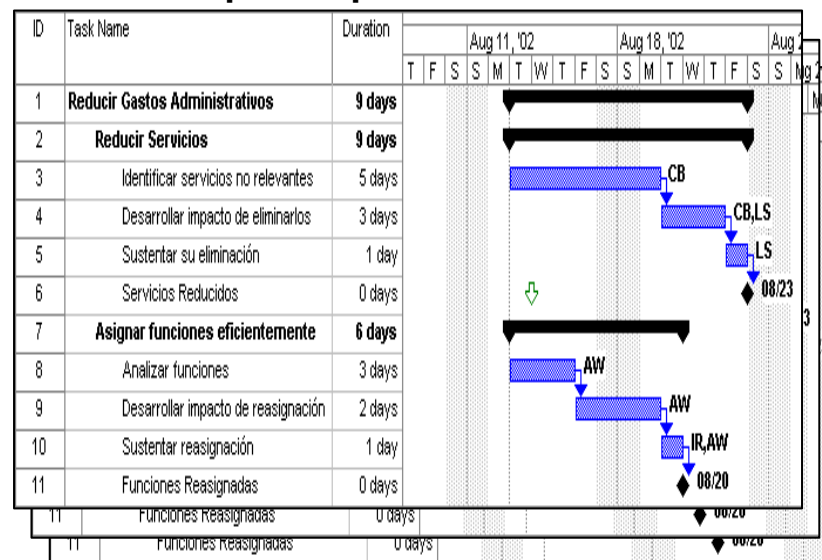
ILLUSTRATIVE

Master TMT timeline



- TMT leader's office will use the Master timeline to comprehensively detail key activities and the timelines for all projects
- Master timeline should identify the most important milestones and deliverables for each group
- Key interdependencies between groups and any contingencies should be described in the Master timeline
- Potential hurdles and delays should be cited, along with strategies for mitigating these issues

Detailed Group Workplans



- Every group should have a detailed workplan with activities, milestones, deliverables and responsibilities (assigned to members)
- Workplans should include information about key support and resource requirements responsible member will need to complete activity



TMT GROUPS WILL PROVIDE WEEKLY UPDATES TO TMT REGARDING STATUS

EXAMPLE PROJECT UPDATE REPORTS

TMT groups report to the TMT Leader's Office, and then to the Secretary and Leadership Team about:

- Project status and major milestones
- Project challenges and successes, including impact of projects
- How the Steering Committee might support or improve projects

Project XX Update (1 of 2)			
Milestones achieved		Decisions to be made	
<ul style="list-style-type: none"> • Define interconnection needs with other operators • Begin the negotiation with enterprises at shared places • Analyze offers received for site acquisitions 		Issue	Responsible
		<ul style="list-style-type: none"> • Negotiate final terms with selected ad agency • Approval by legal dept. of RFPs for multimedia platform 	
Next steps			
Steps	Start	End	Responsible
<ul style="list-style-type: none"> • Approval by legal dept. of RFPs for multimedia platform 	Dec 1	Jan 30	John

Project XX Update (2 of 2)		
Ongoing efforts		
<ul style="list-style-type: none"> • Incorporate additional resources • Define Business requirements (commercial areas) 		
Deliverables	Deadline	Status
<ul style="list-style-type: none"> • Negotiate final terms with selected ad agency 	<ul style="list-style-type: none"> • 7/04 	
<ul style="list-style-type: none"> • Approval by legal dept. of RFPs for multimedia platform 	<ul style="list-style-type: none"> • 15/04 	
PMO support required		Risks/ comments
<ul style="list-style-type: none"> • Define interconnection needs with other operators 		<ul style="list-style-type: none"> • Define Business requirements (commercial areas)

EXPLANATION OF PROGRESS INDICATORS IN UPDATE

Degree of attainment

1	Project idea formulated
2	Detailed project proposal prepared
3	Evaluated and key decision taken
4	Team up and running
5	Project implemented
6	Impact tangible

Status



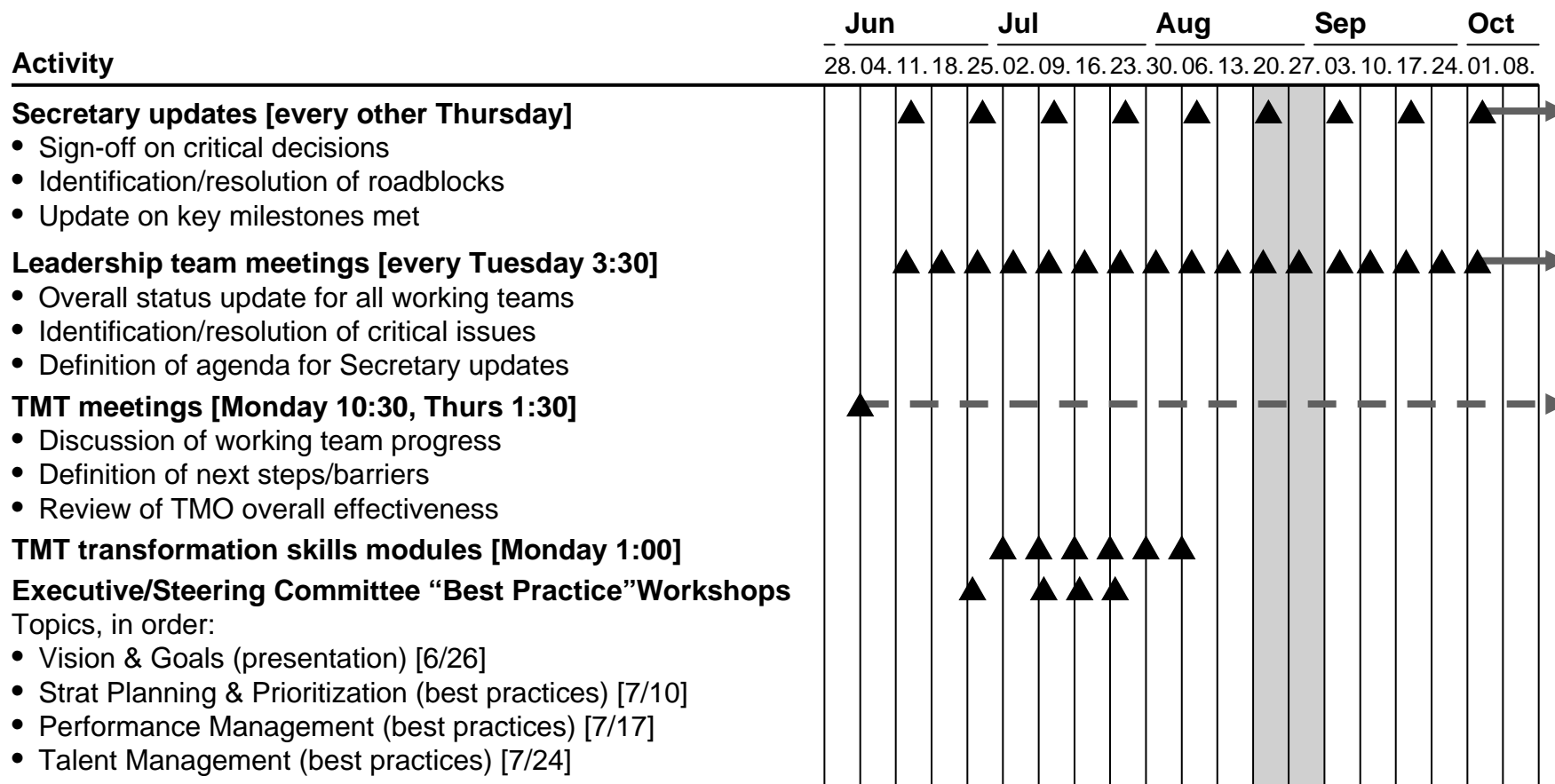
Attention needed

Some issues

On track

PROPOSED MEETING RHYTHM FOR TMT

PRELIMINARY



McKinsey team goes dark

OBJECTIVES AND AGENDA FOR TODAY'S DISCUSSION

Objectives

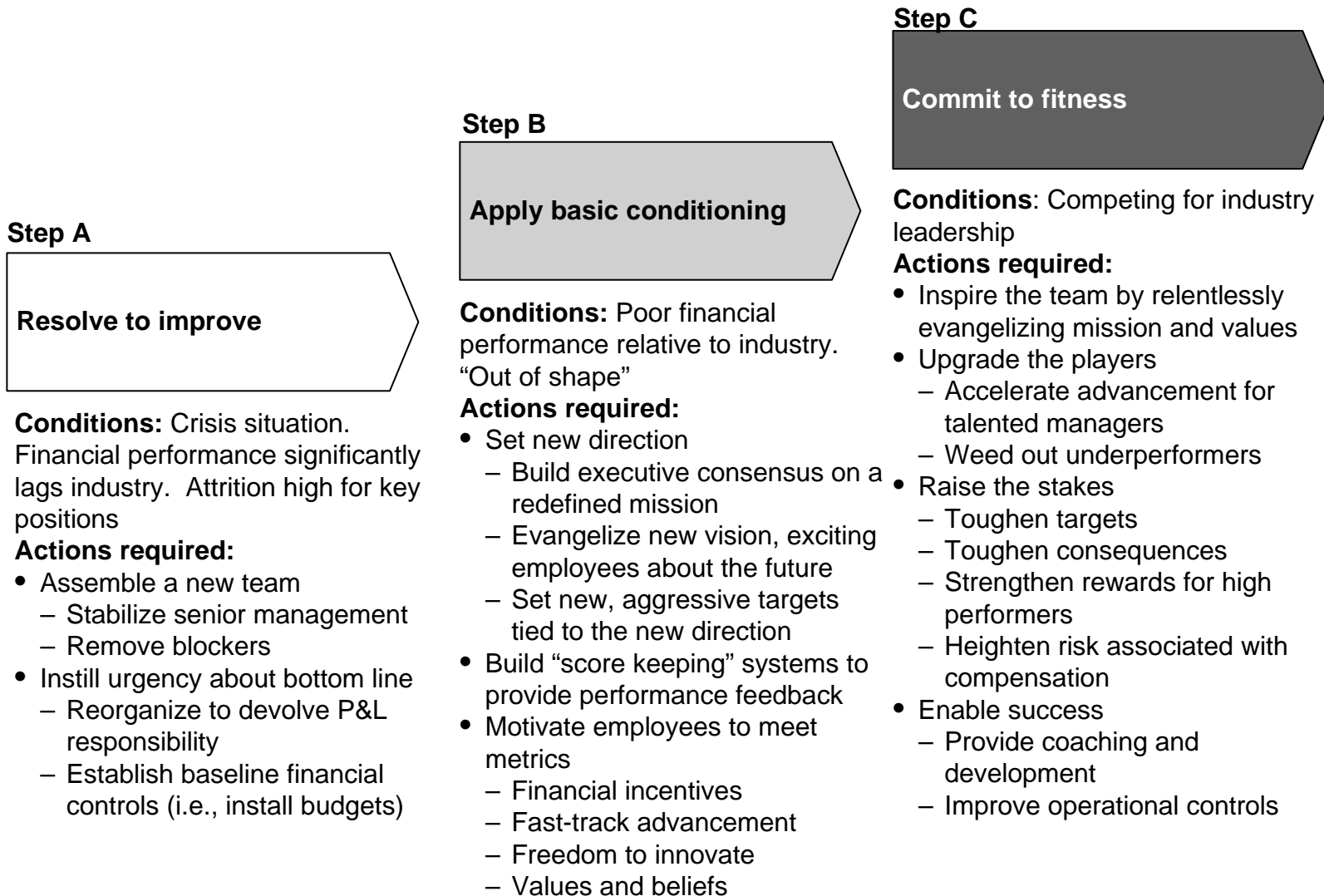
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TYPICAL PERFORMANCE TRANSFORMATION PROCESS

Common transformation horizons



Source: Survey of top executives in North America; interviews

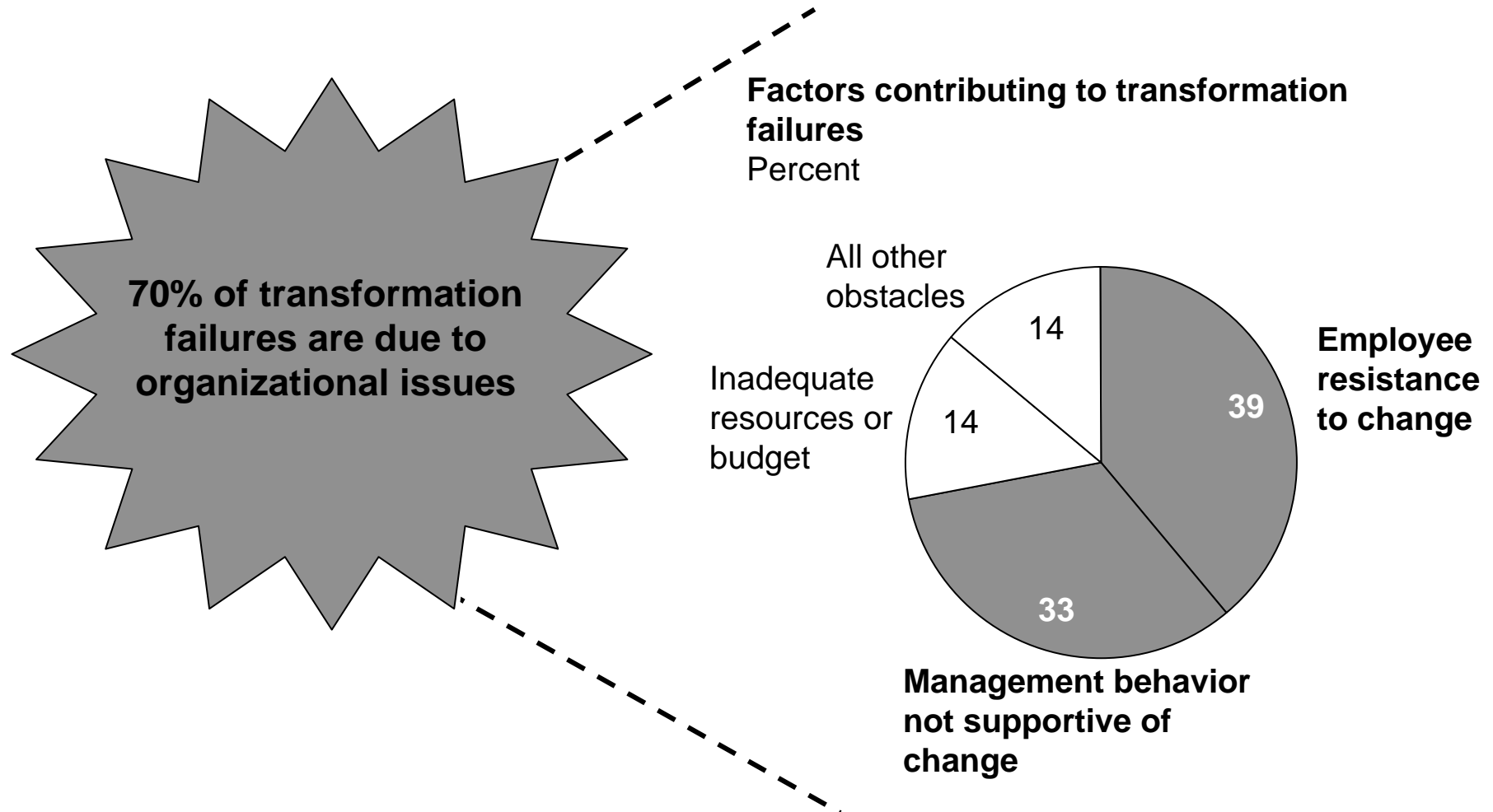
6 KEY CATALYSTS FOR SUCCESSFUL PERFORMANCE TRANSFORMATIONS HAVE BEEN IDENTIFIED

In successful transformations. . .

- | | |
|--|---|
| 1 Rigor in program architecture | • . . . the architecture is consistently articulated at three levels: an overall change agenda, a set of core performance themes, and an array of individual initiatives |
| 2 Performance and health | • . . . both performance and health are lifted to new levels, rather than traded against each other as conflicting goals |
| 3 Aspirations and pace | • . . . a powerful, long-term performance vision is rolled back to a desired midterm future state that is more granular and actionable, yet a stretch in terms of scale and the pace of change |
| 4 Embedding change | • . . . early, visible manifestations of change in the operating model lock in higher performance, create energy, facilitate learning, and foster change |
| 5 Making change personal | • . . . mindsets and behaviors are changed through a holistic approach that addresses employees' understanding and commitment, the systems and structures that guide their actions, their skills and competencies, and their need for influential role models |
| 6 Transforming leadership | • . . . leadership is tapped to propel change, and is also systematically expanded |

Source: Team analysis

ORGANIZATIONAL ISSUES ARE CRITICAL TO SUCCESSFUL TRANSFORMATION...



Source: Beer and Nohria (2000), Cameron and Quinn (1997), CSC Index, Caldwell (1994), Gross et al. (1993), Kotter and Heskett (1992); Hickings (1988); Conference Board report (Fortune 500 interviews); press analysis; McKinsey analysis

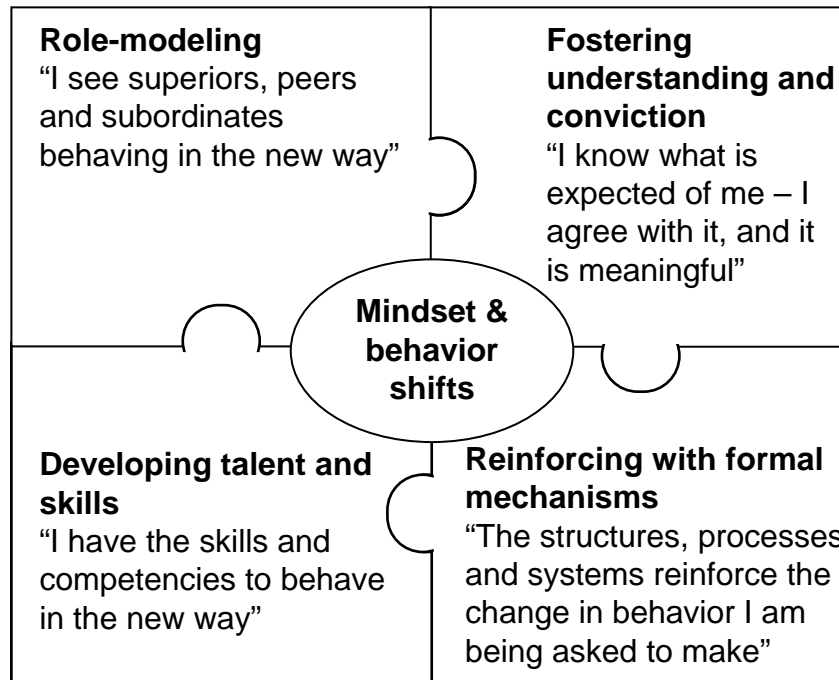
... SO IT IS IMPORTANT TO INFLUENCE MINDSETS AND BEHAVIORS

"I will change my behavior if...."

Lever categories

- Leadership actions
- Opinion shapers
- Interactions

- Learning
 - On-the-job development
 - Training
 - Action learning
- Talent management
 - Hiring
 - Replacing
 - Retaining



Lever categories

- Story development (includes all the key elements, e.g., values, strategy, case for change)
- Story delivery (across relevant levels, i.e., organizational, employee, functional)
- Organization structure
- Targets and metrics
- Management processes
- Business processes
- Rewards, recognition and consequences
- Information systems

ASPIRATIONS SETTING

What will success for the TMT look and feel like?

- How will the team work together?
- How will the team interact with the rest of the organization? With specific stakeholder groups?
- What will be feel different about your work on the TMT versus your prior work at the NCDOT?

What will a successful transformation of the NCDOT look and feel like?

- What differences will you see when you walk around NCDOT?
- What will people be talking about that is different than today?
- What will people be doing differently?



Please take a moment to think these questions through independently and then we will discuss as a group

OBJECTIVES AND AGENDA FOR TODAY'S DISCUSSION

Objectives

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STRATEGIC BLUEPRINT- CONTEXT AND MISSION

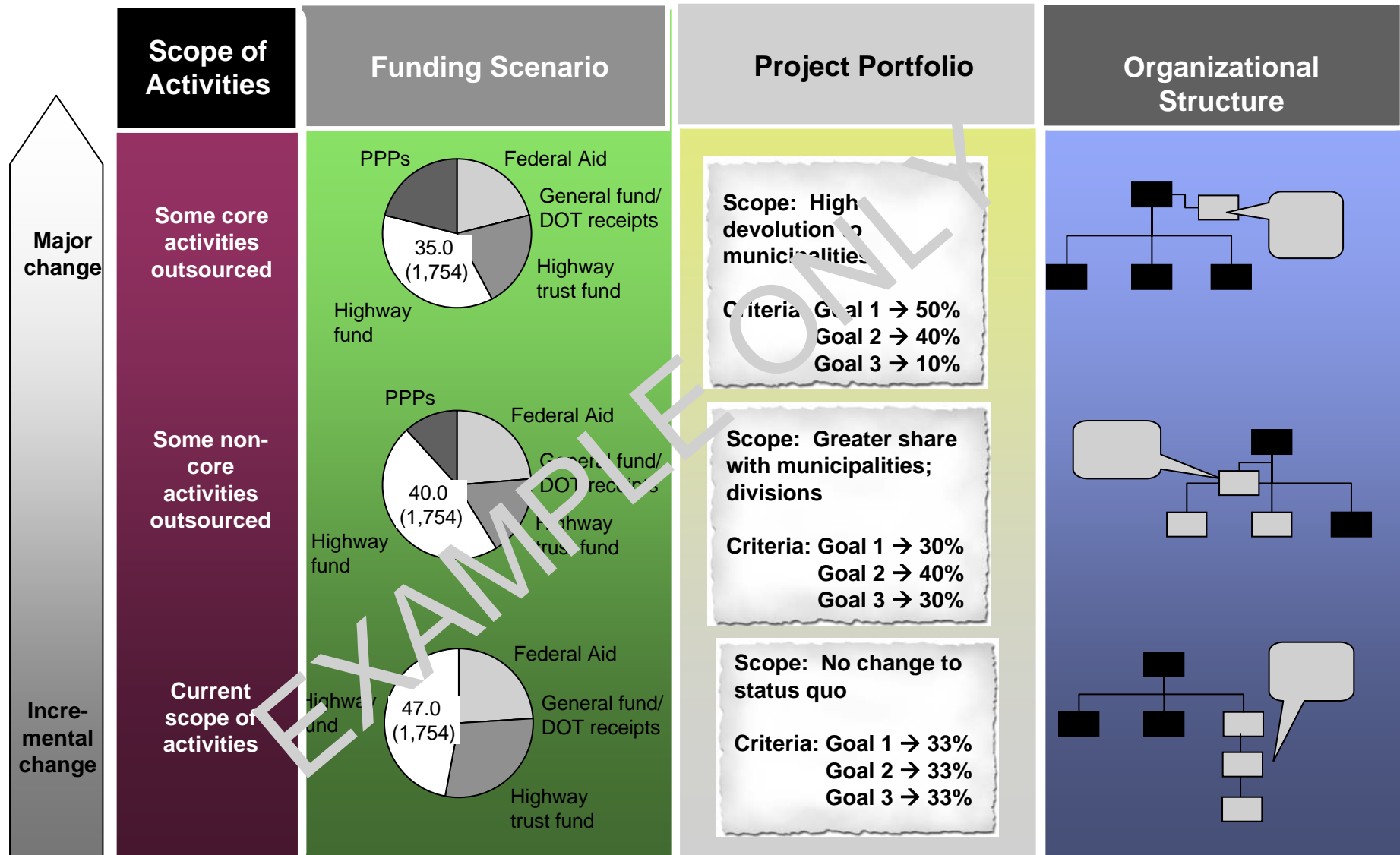
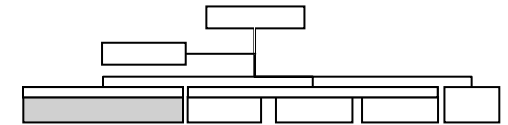
Context

- NCDOT is an organization with neither a single agreed-upon vision nor associated set of strategic goals
- Strategic direction is unclear and activities may not align with vision and goals
- NCDOT has vast scope of activities that may not fit with vision, goals and strategy
- Funding and organizational structure may not be aligned with overall vision, goals, and strategy

Team's Mission

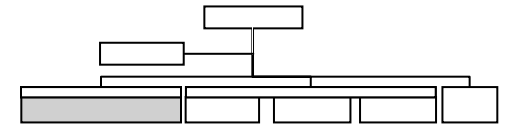
- To design a new strategic blueprint for NCDOT that will:
 - Introduce an overarching vision and transparent goals toward which to direct its activities
 - Establish a new project prioritization scheme based on its strategic priorities
 - Develop a suite of alternative funding scenarios to support the new prioritization method
 - Realign its organization to more effectively meet its goals and project priorities

STRATEGIC BLUEPRINT – EXAMPLE END PRODUCT



STRATEGIC BLUEPRINT- END PRODUCTS AND ACTIVITIES

PRELIMINARY



Wave 2:
8/15 to 10/31

Wave 1:
6/11 to 8/15

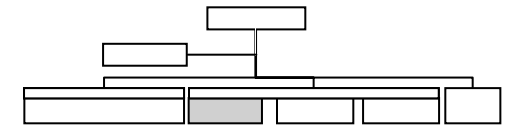
End products

- State vision and goals explicitly
- New strategic blueprint options for NCDOT, which will include:
 - Scope of NCDOT activities
 - Prioritization criteria for project selection and ranking (e.g., points system based on whether project meets strategic statewide, regional or local needs)
 - Scenarios for alternative project funding (i.e., what level of funding, what sources of funding and what flexibility/guidelines for fund uses are needed for options)
 - Options for a newly aligned organizational model, which would include structures, reporting lines, decision rights, roles, and responsibilities
- Detailed roll out plan for any changes to the organizational model

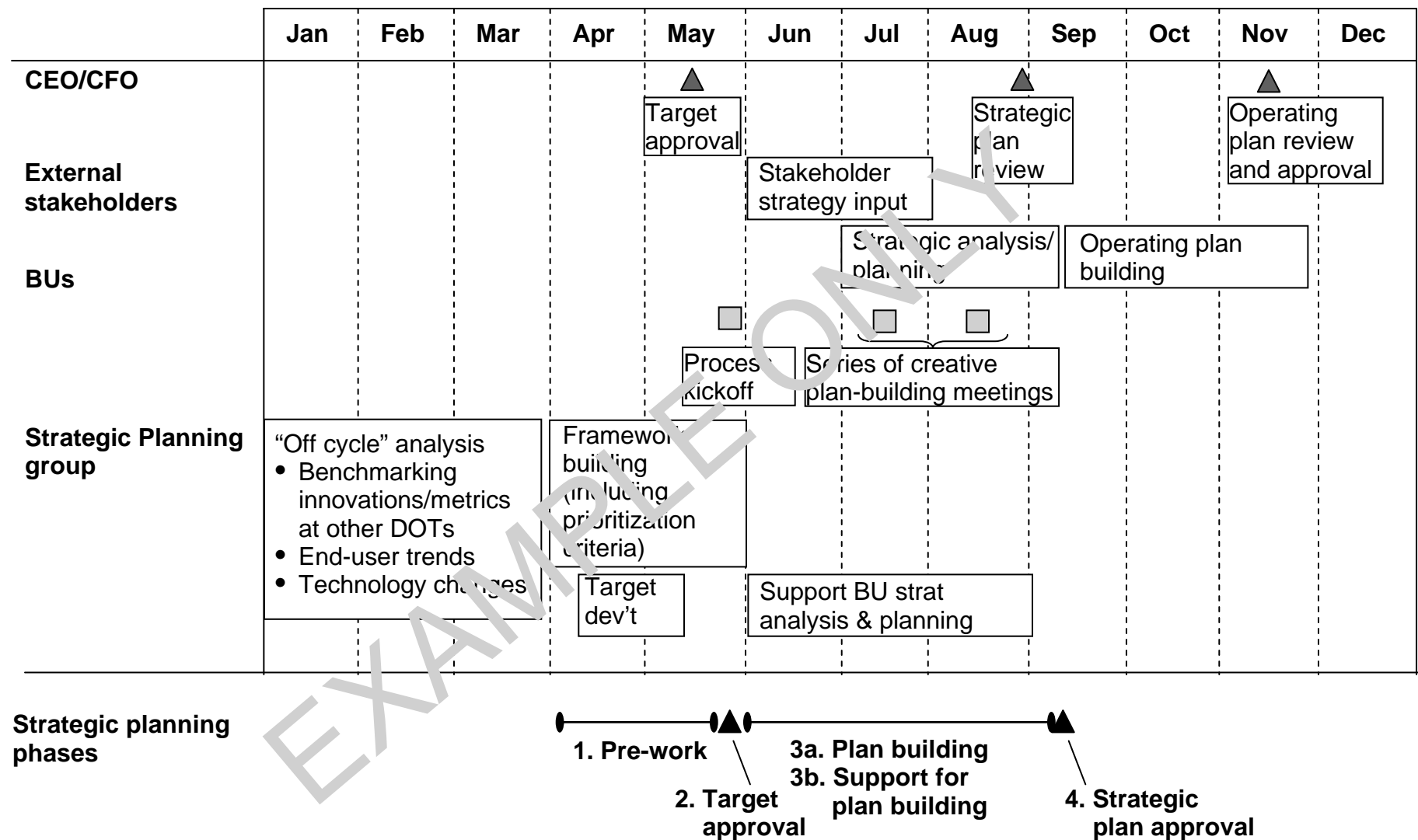
Activities underway by end of wave

- Publication and cascading of newly developed strategic vision and goals across NCDOT
- Evaluation of potential scope changes
- Review of proposed prioritization schemes for project portfolio with stakeholders
- Evaluation of funding scenarios to assess feasibility and generate discussions about steps needed to change restrictions on funding
- Syndication of proposed organizational model changes throughout NCDOT

EXAMPLE STRATEGIC PLANNING AND PRIORITIZATION PROCESS

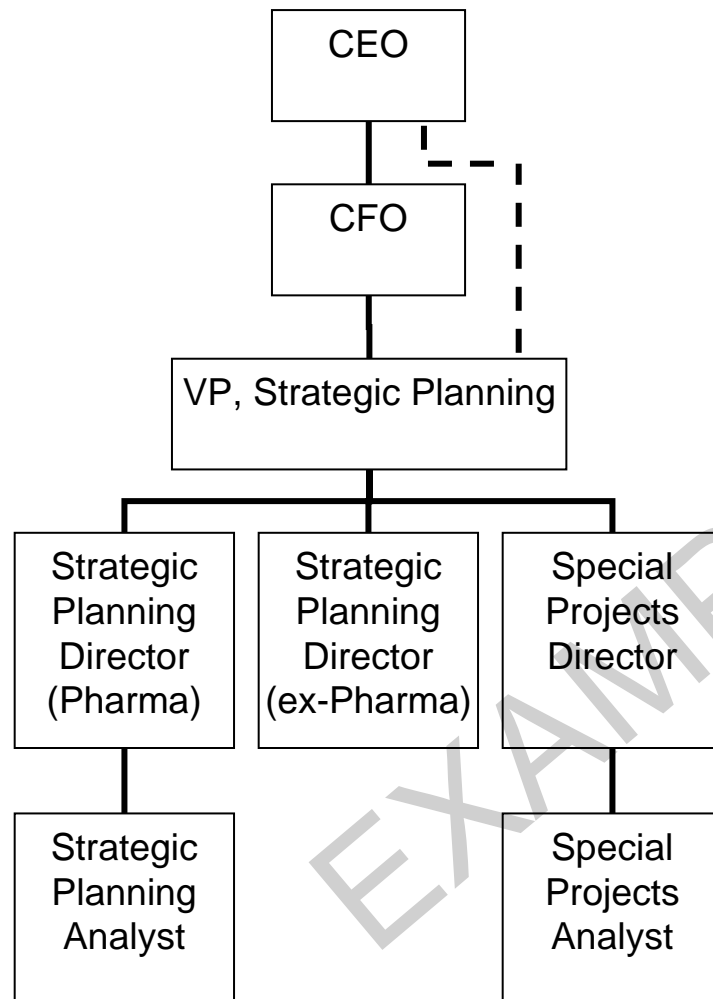


ILLUSTRATIVE EXAMPLE



EXAMPLE STRUCTURE, ROLES AND RESPONSIBILITIES OF THE STRATEGIC PLANNING OFFICE

Basic elements of structure



Possible high level roles and responsibilities

ILLUSTRATIVE

Option 1

- 2 Directors and 1 Analyst dedicated to strategic planning process for the bulk of the year
 - Will support special projects based on capacity
 - Resources broadly aligned by BU
- 1 Director and 1 Analyst to support ad-hoc special projects

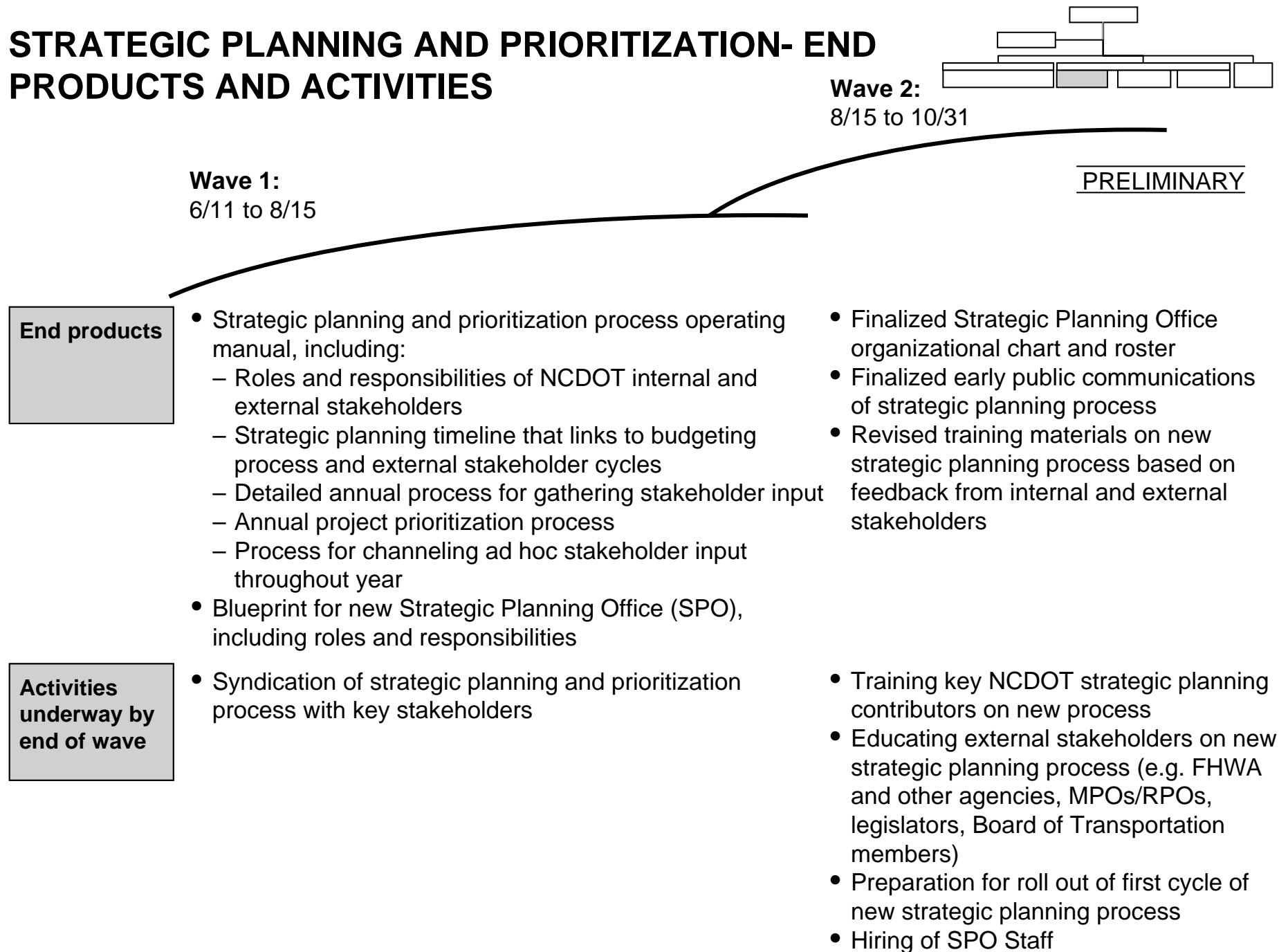
Option 2

- Entire group – 3 Directors and 2 Analysts – to split time between supporting strategic plan and undertaking special projects throughout the years
- Resources broadly aligned by BU

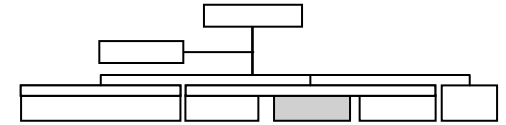
Considerations

- Extent of capacity needed for special projects
- Skill levels of Directors and Analysts

STRATEGIC PLANNING AND PRIORITIZATION- END PRODUCTS AND ACTIVITIES



PERFORMANCE METRICS AND MANAGEMENT- CONTEXT AND MISSION



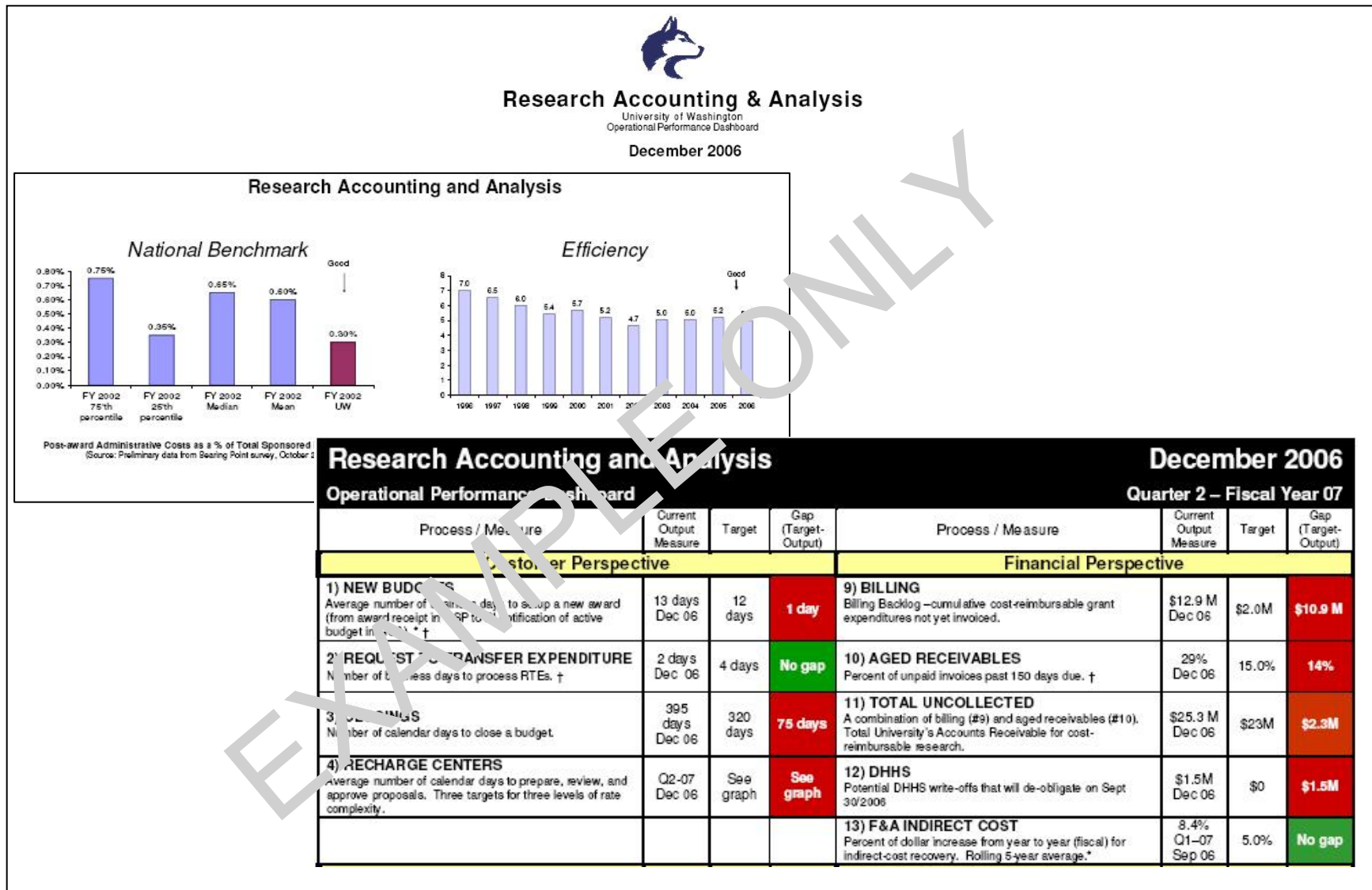
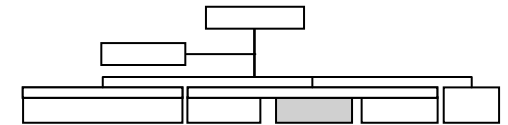
Context

- NCDOT has a history of operating with current needs in mind, rather than long-term goals
- There has been some implementation performance management measures within business units, but those efforts are neither linked to NCDOT nor other business unit priorities
- NCDOT's ad hoc nature of performance indicator generation sometimes led to conflicting needs between units

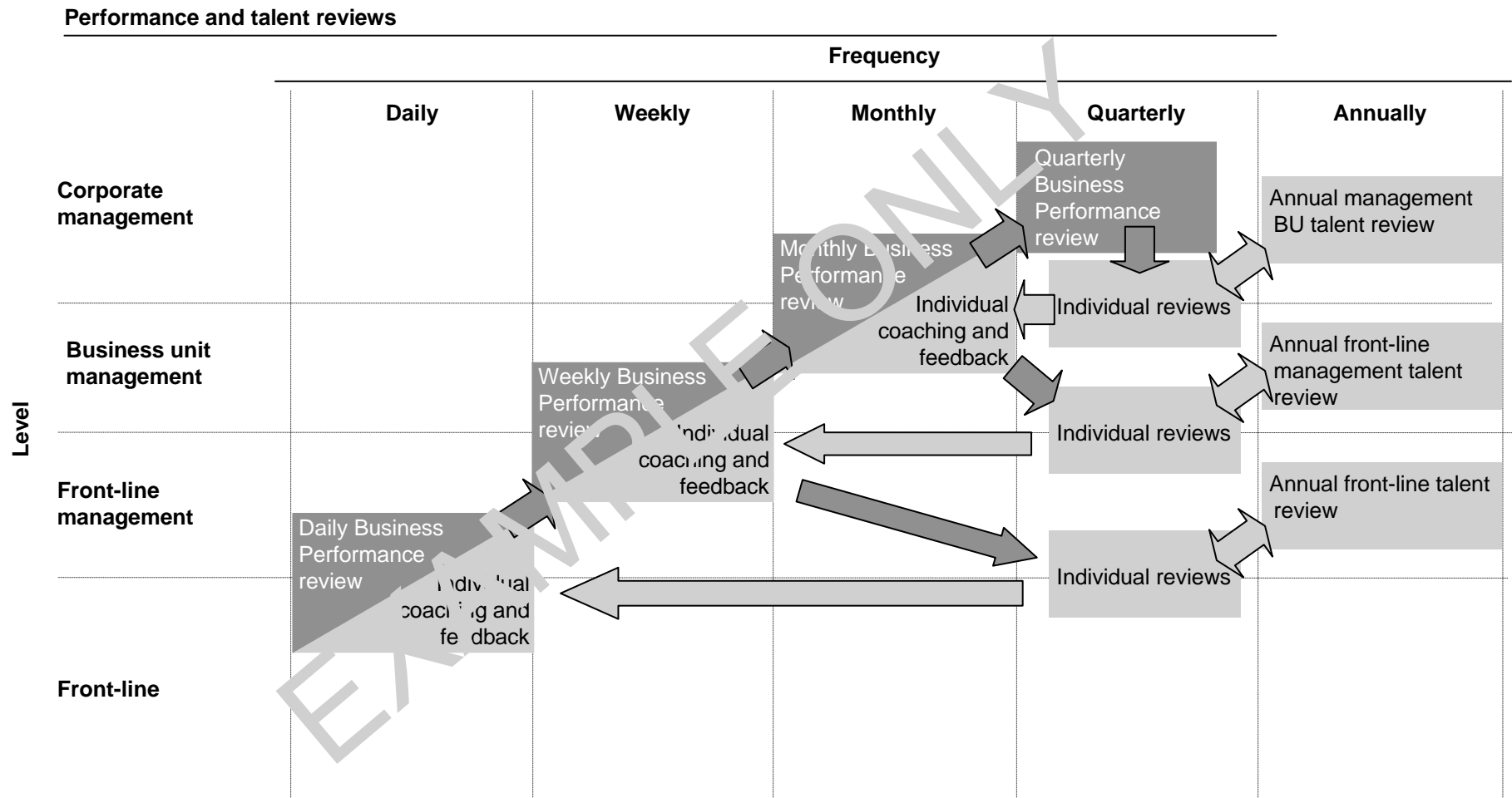
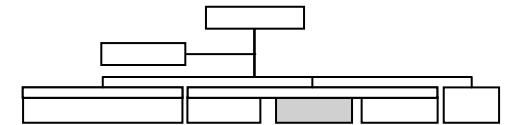
Our Team's Mission

- To introduce a performance metrics and management function characterized by:
 - High-level set of metrics tied to NCDOT vision and goals
 - Organization-wide agreement on key performance indicators that suit both NCDOT and individual business unit needs
 - Management focused on leading toward meeting performance metrics
 - Linking of staff performance reviews to overall metrics

PERFORMANCE METRICS AND MANAGEMENT- EXAMPLE DASHBOARD

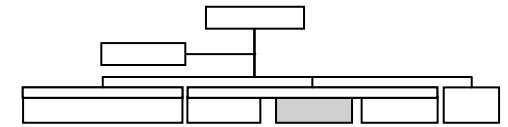


PERFORMANCE METRICS AND MANAGEMENT- EXAMPLE LINKS WITH TALENT MANAGEMENT



PERFORMANCE METRICS AND MANAGEMENT- END PRODUCTS AND ACTIVITIES

Wave 2:
8/15 to 10/31



Wave 1:
6/11 to 8/15

PRELIMINARY

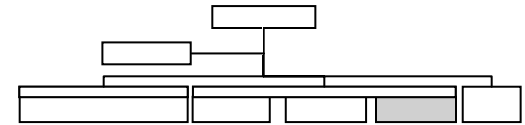
End products

- Specific dashboard tool (e.g. website or annual hard copy publication) that NCDOT leadership and stakeholders/public can use to monitor performance against list of high-level performance metrics
- Process to manage to and periodically update dashboard
- Roll-out plan for performance management system – Including major milestones, timeline for staggered introduction across business units, and schedule for tying metrics to talent management
- Cascading of high-level throughout the NCDOT organization (e.g. metrics for Highways adopted at the state-wide, division, and municipal levels)
- List of most mid- and low-level performance metrics for use in core operating units (i.e., Division of Highways, Transit, and DMV)
- Preliminary plan for linking performance management and talent management systems, including ties to compensation and promotion

Activities underway by end of wave

- Early stages of managing to some metrics in selected business units
- Modifications to IT systems to facilitate metric tracking in progress
- Development of mid- and low-level performance metrics in core operating units (i.e., Division of Highways, Transit, and DMV)
- Linkages between performance management and talent management systems being developed
- Roll out and public communication of new dashboard tool
- Development of mid- and low-level metrics for other NCDOT groups
- Continued roll-out of metrics-based management to all NCDOT business units

TALENT MANAGEMENT- CONTEXT AND MISSION



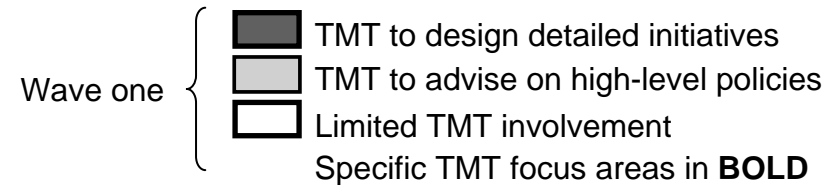
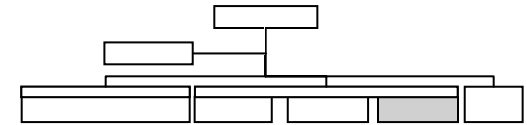
Context

- Talent management function is failing to:
 - Recruit and retain critical talent
 - Drive employee performance
 - Develop managers
- This is driven by
 - A nominal performance review process without consequences
 - Limited succession and mobility planning for most critical functions
 - An inadequate employee value proposition
 - A view of Human Resources as an administrative function, not a strategic responsibility

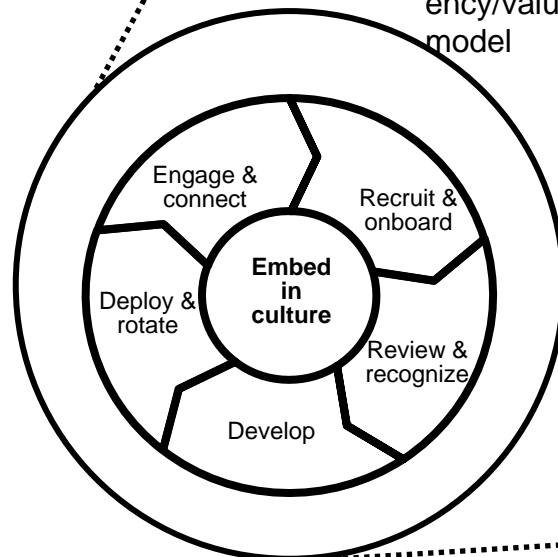
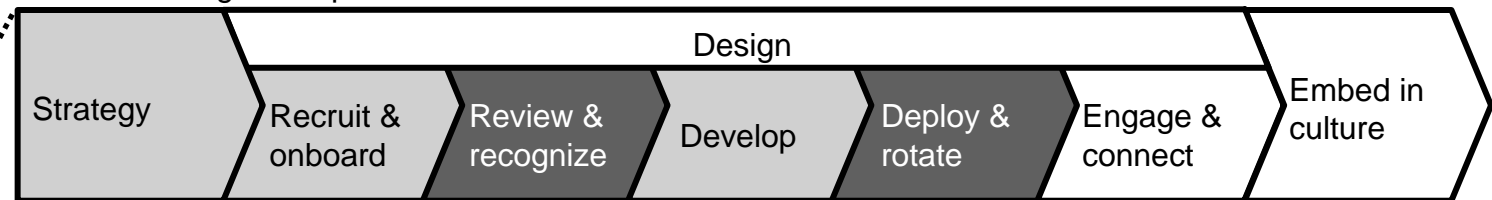
Our Team's Mission

- To introduce a talent management function characterized by:
 - A rigorous performance review process tied to performance metrics effort
 - Improvements in development, succession planning, mobility and retention of talent, particularly high performers
 - A talent value proposition that makes NCDOT an attractive place to launch and build a career
 - Focus on HR as a strategy, not only a function

TALENT MANAGEMENT- TMT WILL FOCUS INITIALLY ON MOST CRITICAL AREAS



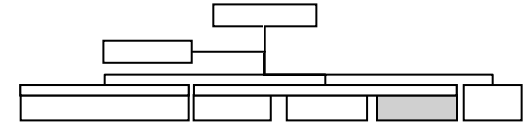
Talent management processes



- **Talent strategy process**
- Competency/value model
- Talent planning
- **Development of employer value proposition**
- Recruitment & selection
- Onboarding & integration
- **Target management**
- **Talent reviews**
- **Management of talent review outcome**
- **Identifying development objectives**
- Designing appropriate programs
- Execution, evaluation & review of effects
- **Succession planning**
- **Job rotation & mobility**
- Career transfer
- Creation of networks between employees
- Sharing of knowledge and best practices
- Activities to engage and retain top talent
- Alumni management
- Top-team alignment, communication, cultural change
- Organization structure & IT support
- Implementation & review (input, output, results)

Source: McKinsey Organization Practice

TALENT MANAGEMENT- BEST PRACTICES



Talent strategy:

- Articulate a talent strategy that delivers implications of corporate strategy and fits with needs of business environment

Embed in culture:

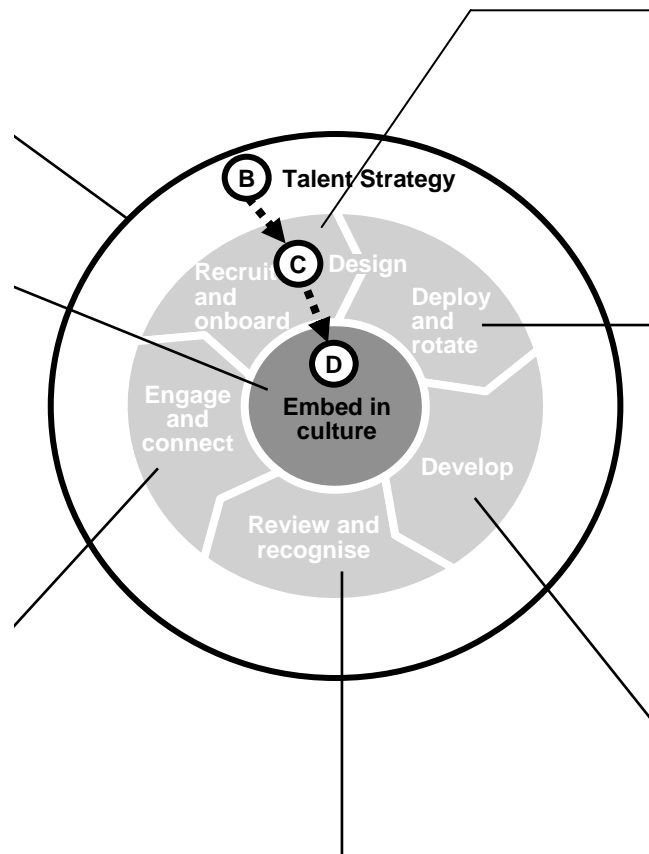
- Measure talent management outcomes
- Instill talent mindset and capabilities throughout the organization

Engage and connect:

- Build employee engagement to drive productivity
- Building social capital (connections between employees) is essential to make the most of human capital (capabilities)

Review and recognise

- Individual targets reflect overall corporate targets
- Gather review input sufficient to estimate future potential as well as current performance
- Calibrate individual reviews
- Link consequences to clear accountabilities



Recruiting and on-boarding

- Ensure 'fit' is built into recruiting criteria
- Recruit for the people you need five years from now, as well as those you need today

Deploy and rotate

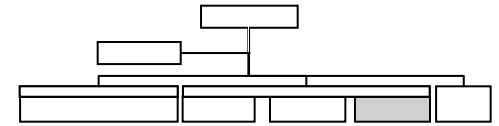
- Deploy not just to fill a position, but to fill the pipeline
- Use challenging roles to drive development
- Ensure succession plans cover current and projected needs
- Involve senior leadership in career planning for 'top talent'

Develop

- Develop a capability building plan based on strategic capability gaps
- For each capability, use appropriate mix of training with on-the-job development (slanted towards the latter)

TALENT MANAGEMENT- END PRODUCTS AND ACTIVITIES

Wave 2:
8/15 to 10/31



Wave 1:
6/11 to 8/15

PRELIMINARY

End products

- Talent management process operating manual for senior managers, which will include strategic approach to talent management, talent management cycle timelines, list of (and tools for) key talent planning meetings
- Recommended succession planning/mobility policy
- Operating manual for managers to use for employee reviews, including policies, processes, and templates
- NCDOT policy recommendation memos on:
 - High-level process to link talent and strategic planning
 - Enhanced employee value proposition
 - Improved training and development of managers
 - Multiple career trajectories (e.g., tech v. managerial)
- Roll out plan for talent management system pilot
- Identification of “critical” positions to include in the next wave of talent management system roll-outs
- Preliminary plan for linking performance management and talent management systems, including ties to compensation and promotion

Activities underway by end of wave

- Preparation for roll out of new talent management system
- Evaluation of training, value proposition, and career trajectory options
- Initial cycle of new talent management process for a pilot group of ~100 critical positions
- Continued training of managers on new employee review process

OBJECTIVES AND AGENDA FOR TODAY'S DISCUSSION

Objectives

- Understand the context and aspirations of the transformation
- Introduce the Transformation Management Team (TMT)
- Agree on our priorities as a team
- Understand how we're going to work together

Agenda

- | | |
|--|----------------|
| • Introductions and Overview | 9:00 to 9:30 |
| • Background | 9:30 to 10:15 |
| • TMT: Organization, Roles, and Working Approach | 10:15 to 11:00 |
| • Lessons on transformation and aspiration setting | 11:00 to 12:00 |
| • Lunch | 12:00 to 12:30 |
| • Detail on TMT workstreams | 12:30 to 2:45 |
| • Break | 2:45 to 3:00 |
| • Next steps | 3:00 to 3:15 |
| • Group meetings | 3:15 to 5:00 |

MOVING FORWARD

We will get started this week.

- For our Thursday meeting, please work with your Group to:
 - Complete a draft team charter, defining specific objectives, milestones, resource requirements and interdependencies
 - Complete a timed workplan of the activities required to accomplish your objectives in this first wave of the TMT's work
 - Complete your first 'Weekly Update Templates', like those that will be shared every Thursday
- Begin work required to accomplish your groups objectives, e.g., information gathering, setting up appropriate interviews, developing alternatives

OBJECTIVES AND AGENDA FOR TODAY'S DISCUSSION

Objectives

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TEAM CHARTER: _____ TEAM

Objective of project

If successful, what will this team have accomplished?

Key milestones

Date

What milestones will indicate that the team is on track to reach its objective?

Key Activities

What must the team do to reach its objective?

Critical resources

Resource required by the team for success, including:

- *Key partnerships/constituencies*
- *Key data resources*

Interdependencies with other teams

What do you require of other TMT teams for success? What do they require of you?

Open Issues

Level of urgency

*Any areas of concern or ambiguity?
How critical is their resolution to the project's ability to move forward?*

PROJECT UPDATE (1/2): _____ TEAM

Degree of attainment

1	2	3	4	5	6
---	---	---	---	---	---


Overall
Status



Milestones achieved this period	Issues outstanding/decisions to be made		
	Issue		Responsible

Next steps			
Steps	Start	End	Responsible

PROJECT UPDATE (2/2): _____ TEAM

Ongoing efforts		
Deliverables	Deadline	Status 
Leadership support required		Risks/ comments

CONFIDENTIAL

Vision Statements and Goals: Context and Recommendations



Document for Review

June 26, 2007

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CONTEXT CONSIDERED IN DEVELOPING VISION & GOALS

1 Safety

- The number of fatalities in North Carolina is the fourth highest of any state.
- North Carolina's crash-fatality rate has historically been among the 25 highest in the nation; NC's current crash-fatality rate per 100 million vehicle miles traveled is 1.51, compared to the national average of 1.45.

2 Maintenance

- The 2006 Report on the Condition of the State Highway System gave the following grades: Pavement maintenance, D; Traffic signs, D; Pavement striping, D-; Pavement markers, F.
- The size of the NCDOT system has increased 12.5 percent over the past 10 years, but the resurfacing and maintenance budget has only increased 19 percent.
- Assets are getting older and more expensive to rehabilitate. On the facilities front, 3.5 million gross square feet, representing approximately 1,400 buildings, are more than 35 years old; and 2 million gross square feet, representing approximately 800 buildings, are more than 50 years old.

3 Mobility

- Vehicle Miles Traveled have increased 32.6 percent over the past 10 years, but lane miles themselves have increased only 12.5 percent.
- The average one-way commute increased by 21 percent between 1990 and 2002, from 19.8 minutes to 24 minutes.
- Traffic congestion in NC costs licensed drivers \$775 million annually in delays and wasted fuel.

4 Culture, Mindsets, Accountability

- NCDOT has too few performance metrics.
- Talent systems are not retaining critical talent.

5 Organizational effectiveness and delivery

- Current scoping and project prioritization schemes are inefficient.
- Funding is restrictive and inflexible.

6 Environmental stewardship

- Nearly one-third of all North Carolina counties are designated non-attainment for air quality.
- Environmental lawsuits on US-1, I-26, WSNB have caused dramatic increases in project costs.
- Median time to complete Environmental Impact Statements in FY 2006 was 60 months. The national average is 14 months

CRITERIA FOR NEW VISION AND GOALS ADDRESS WEAKNESSES IDENTIFIED IN THE DIAGNOSTIC

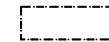
Diagnostic findings

- Many different statements of NCDOT's vision
- Various vision statements were not always consistent
- Goals were not explicitly linked to statewide vision or to measurable targets
- Vision and goals were not well known throughout the organization

TMT's criteria for new vision and goals

- 1. Communicable, memorable, easily understandable language**
- 2. Realistic, measurable targets**
- 3. Objectives with applicability across the entire NCDOT organization**
- 4. Statements directed simultaneously at people who work at NCDOT and are served by NCDOT**

PROPOSED VISION STATEMENTS (1 of 2)



TMT's preferred option

	Vision	Implications
Broad-Based and Boiled Down: Version 1	NCDOT: Connecting people and businesses in North Carolina safely, efficiently, and with accountability.	<ul style="list-style-type: none"> • Suggestive of some goal statements (see last slide) • Assumes NCDOT is broadly responsible for functions of the transportation system • Suggests multi-modal choices
Broad-Based and Boiled Down: Version 2	NCDOT will deliver and manage a highly efficient, safe, reliable transportation system, while operating as a performance-driven organization.	<ul style="list-style-type: none"> • Suggestive of some goal statements (see last slide) • Draws explicit attention to performance management • Poses NCDOT as responsible for delivering, maintaining, and operating North Carolina's transportation system
Broad-Based and All-Inclusive	North Carolina's transportation system will move people and goods safely, efficiently, and reliably; operate in an environmentally responsible manner; and enhance economic opportunities under the leadership of an effective, highly accountable Department of Transportation.	<ul style="list-style-type: none"> • Suggestive of many goal statements (see last slide) • Poses NCDOT as responsible for operating North Carolina's transportation system; leaves open the question of delivery and maintenance

PROPOSED VISION STATEMENTS (2 of 2)

	Vision	Implications
Focused on Multi-Modal Transportation	NCDOT will deliver a fully integrated, multi-modal transportation system that enhances the quality of life of North Carolinians and the state's economy, with a commitment to operate as an efficient, highly accountable organization.	<ul style="list-style-type: none">• Suggestive of many goal statements (see last slide)• Poses NCDOT as responsible only for providing integrated modal choices for NC's citizens and businesses• Links the transportation system to the quality of life of NC's residents and the state's economic health
Focused on Specific Corridors	NCDOT will focus its investments on a defined set of transportation corridors to move people and goods safely, efficiently, and reliably, and it will operate as an efficient, highly accountable organization.	<ul style="list-style-type: none">• Suggestive of some goal statements (see last slide)• Focuses on investing in the transportation system, rather than delivery, maintenance, or operation• Poses NCDOT as responsible for a defined set of corridors in North Carolina, to the exclusion of other parts of the transportation system

PROPOSED GOAL STATEMENTS

Goals	Metrics to use to gauge success	Examples represent a small subset of those we could use
1 Make our transportation network safer	<ul style="list-style-type: none"> • Number of crashes and fatalities • Percentage of crashes involving revoked licenses 	
2 Make our transportation network last longer	<ul style="list-style-type: none"> • Maintenance Condition Assessment Report metrics • Pavement Condition Assessment Report metrics • Bridge Condition Report metrics 	
3 Make our transportation network move people and goods more efficiently	<ul style="list-style-type: none"> • Travel times • Miles congested • Clearance times • Ferry arrival and departure times 	
4 Make our organization a great place to work	<ul style="list-style-type: none"> • Recruiting yield rates • Attrition rates • Employee satisfaction rates • Facilities condition 	
5 Make our organization a place that works well	<ul style="list-style-type: none"> • Wait times for license and registration services • Performance management metrics • On-time, on-budget project delivery • On-time, on-budget process delivery 	

SUPPLEMENTARY GOAL STATEMENT ON THE ENVIRONMENT

The team sees three options for how to include environmental stewardship among NCDOT's goals.

A

Include environmental stewardship as an explicit goal

- Additional goal statement: "Make our transportation network greener."
- Corresponding metrics: ICAs (Immediate Corrective Actions), NOVs (Notices of Violation), LEED building standards, usage statistics for multi-modal transit, and Environmental Justice Participation, among others.

B

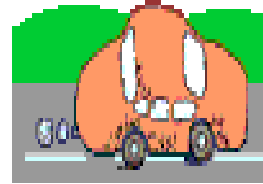
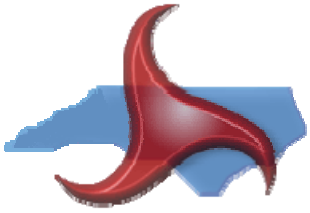
Do not include environmental stewardship as an explicit goal, but include environmental-related metrics with other goals.

- Corresponding metrics for "Make our transportation network last longer": decreases in road-building activity in rural areas
- Corresponding metrics for "Make our transportation network move people and goods more efficiently": statistics for multi-modal transit
- Corresponding metrics for "Make our organization a great place to work,": new square footage of LEED buildings.

C

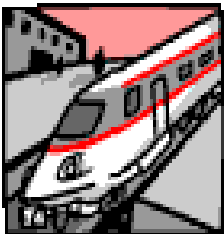
Include environmental stewardship only as part of an explicit goal.

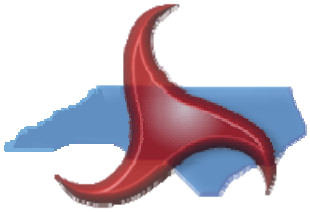
- Alternative goal statement: "Make our organization a place that works in the best service of its employees, customers, and the environment." (In place of goal #5)
- Corresponding metrics: combine the metrics from option (A), above, with the metrics from goal 5 on the previous slide.



- Strategic Prioritization Process Summit -

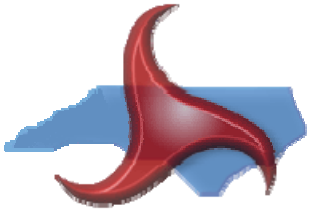
September 10, 2007
RBC Center





Why Prioritize?

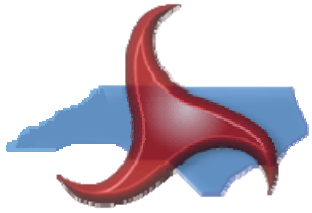
- **Dictionary.com Definition**
 - *“to organize/arrange something according to its importance”*
- **NCDOT can’t be “all things to all people”**
 - *better focus Dept’s energies/communicate our progress*



Why Prioritize?

McKinsey Diagnostic

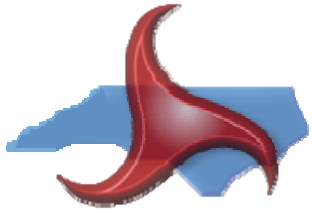
- **Strategic direction is unclear and activities may not align with vision and goals**
 - Only ~30% of employees agree/strongly agree that “NCDOT’s strategy is aligned with its vision.”
- **The result of lack of strategic planning process is a lack of project prioritization**
 - STIP projects are currently not prioritized
 - Diagnostic found that lack of prioritization may be biggest contributor to project delivery delays
- **Ad hoc pressures from multiple stakeholders further confuse project prioritization**
 - One of the most critical issues identified in the diagnostic was the absence of a process to prioritize projects based on *systematic*, rather than ad hoc, stakeholder input and then buffer the organization for external pressures



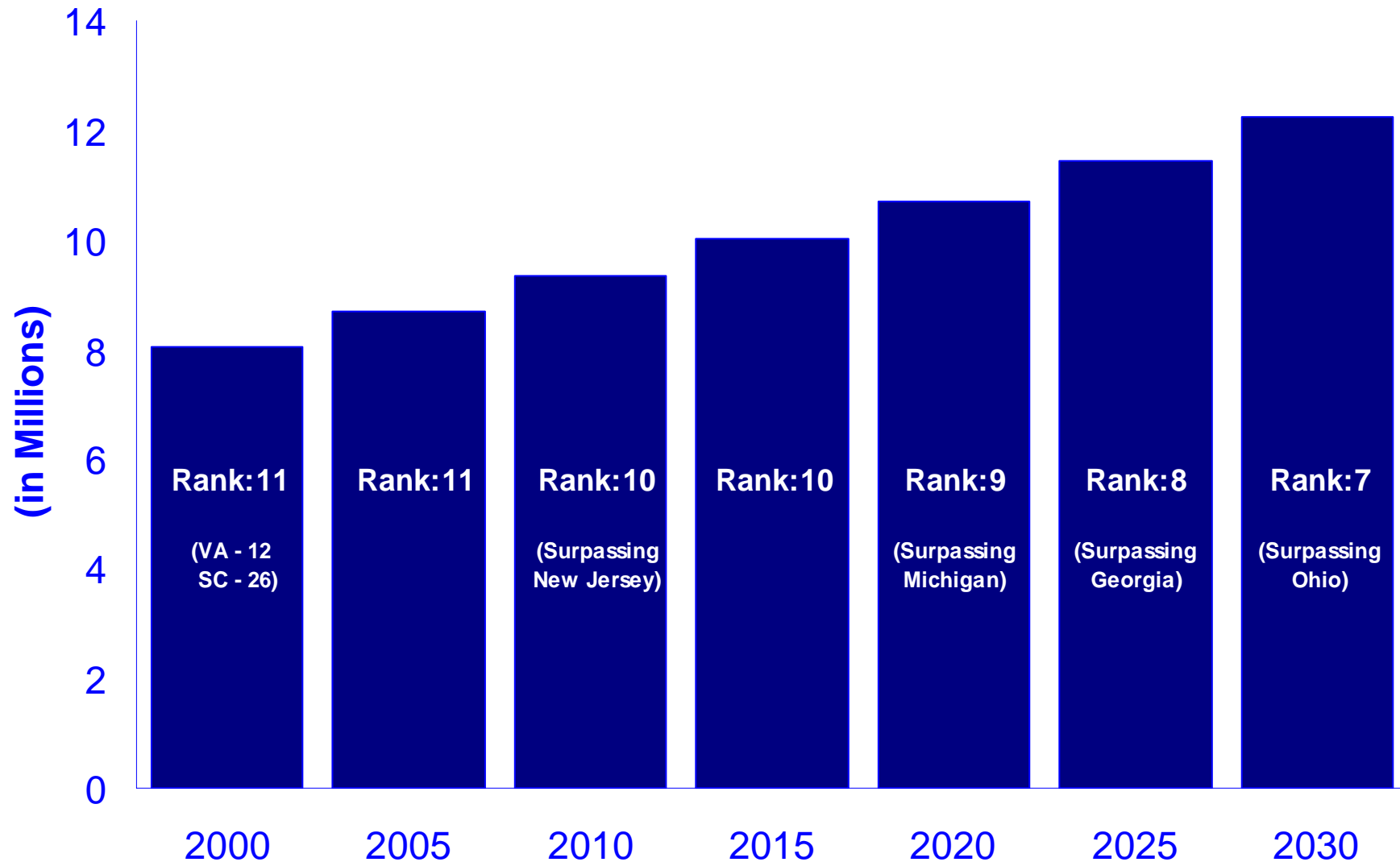
Transportation System Impacts

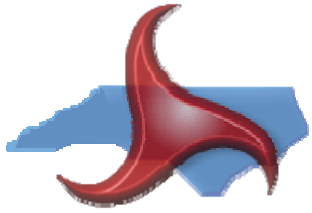
“A Gathering Storm”

- **Population Demand**
 - 500,000 new residents since 2001
 - 7th most populous state by 2030
- **Construction Cost Escalation**
 - Spike in global asphalt, cement, steel prices
- **Deferred Projects / Cash Shortages**
 - Delays in the completion of EXP related projects
 - Less back from Fed-Aid \$
- **Congestion is worsening**



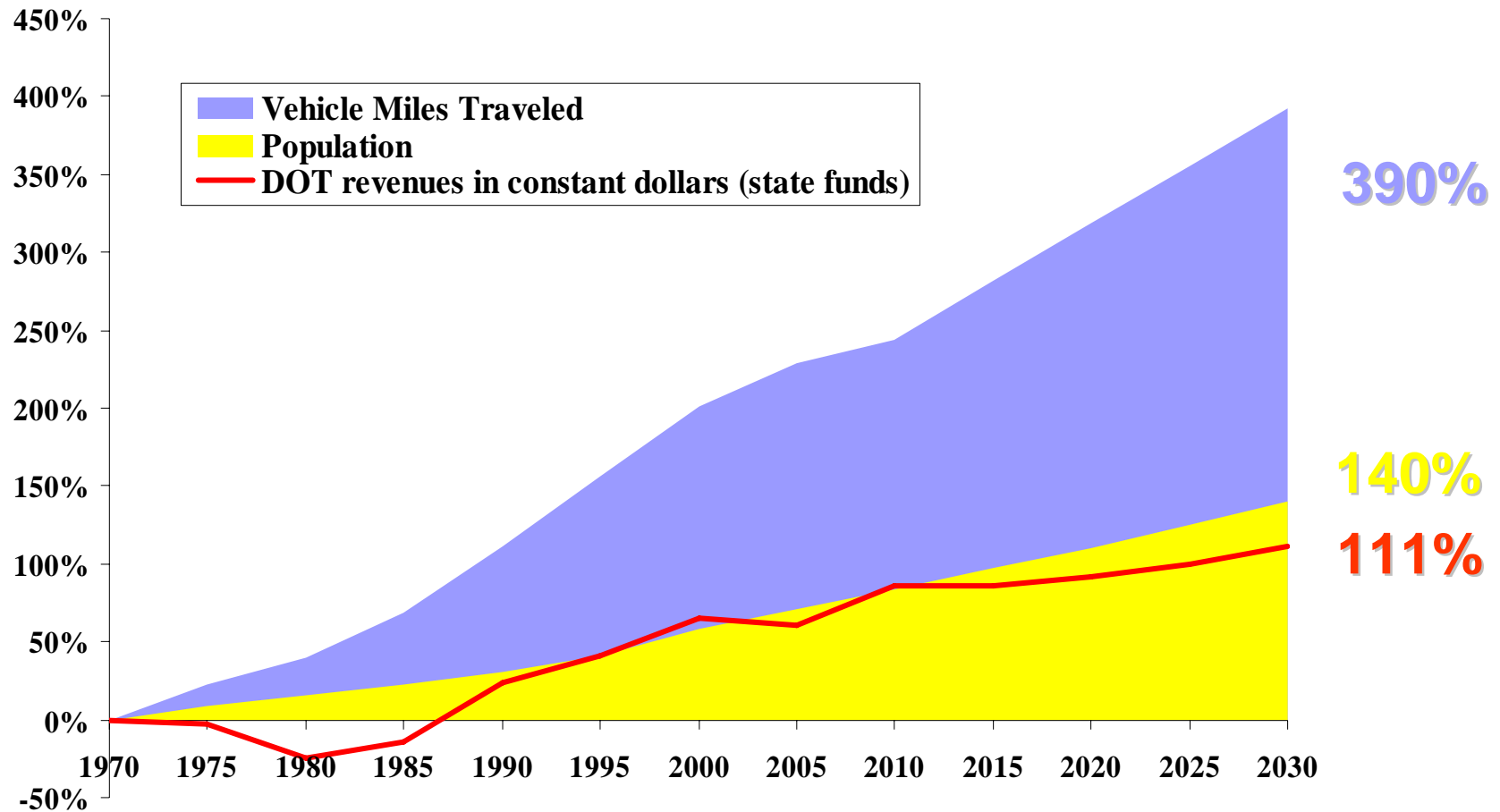
NC Population Growth

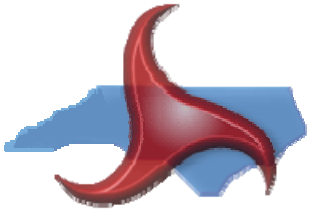




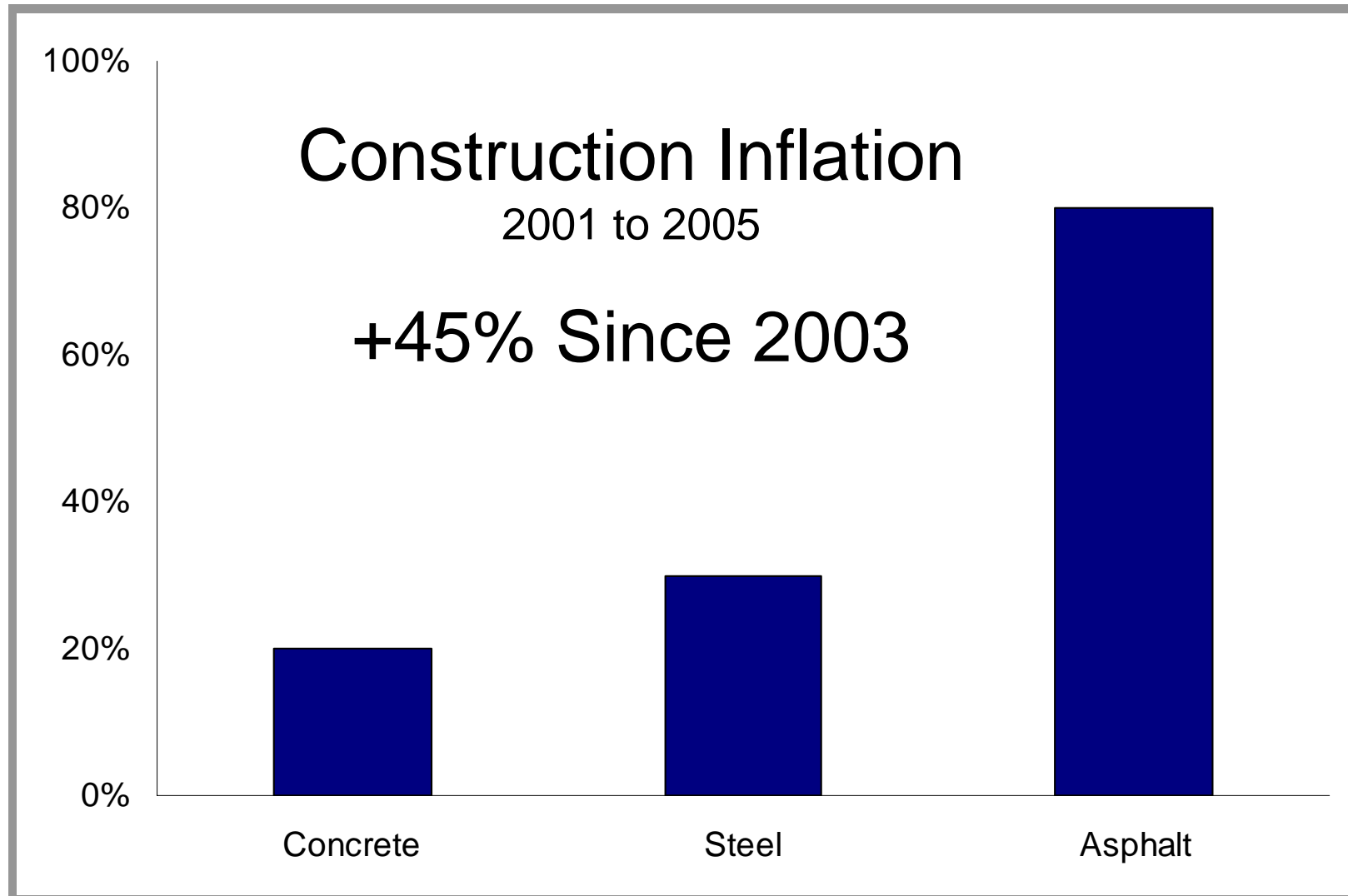
North Carolina Projections 2030

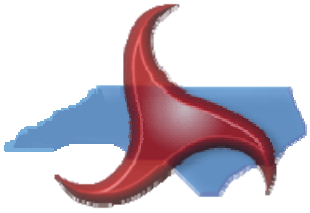
Percent Growth over 1970 basis





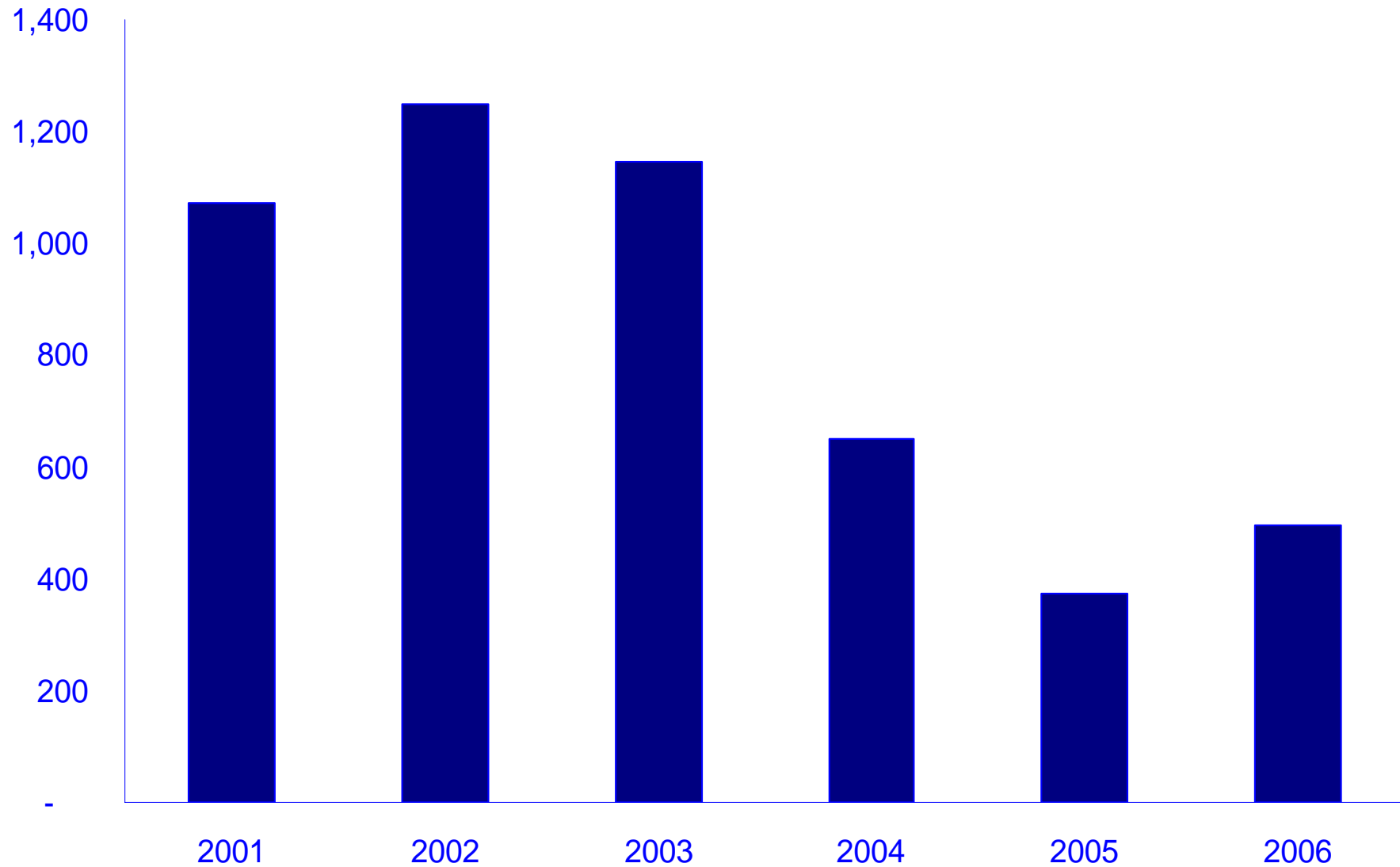
Material Cost Escalation

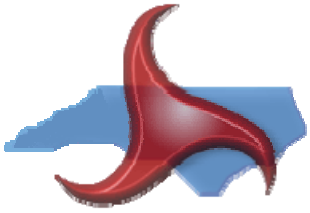




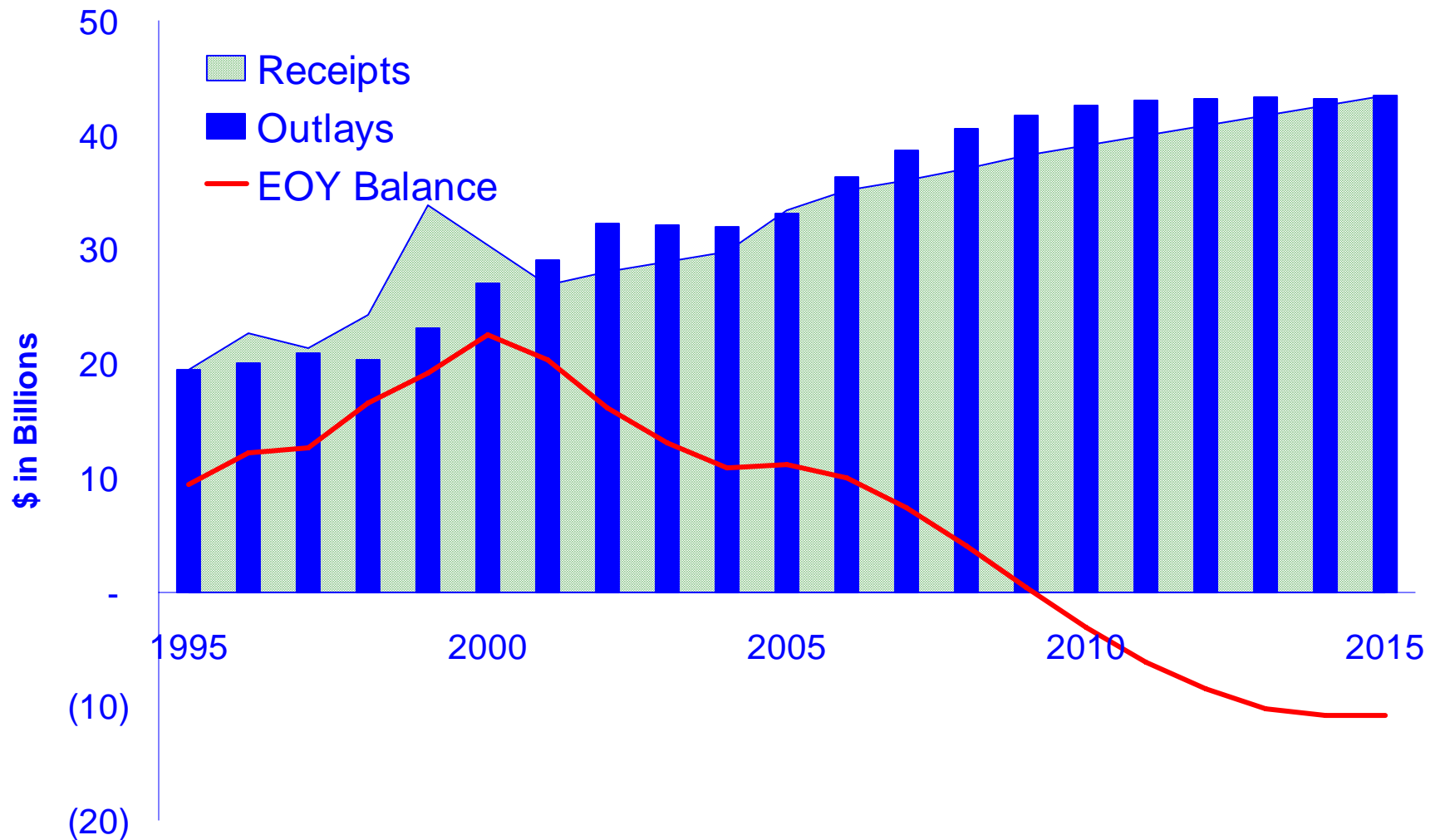
Annual Lettings

(\$ in Millions)





Reduced Federal Outlook



NCDOT

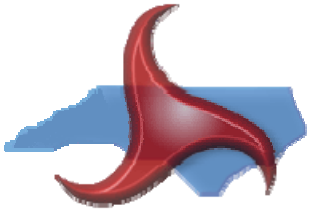
OUR MISSION

***Connecting people and places
in North Carolina – safely and
efficiently, with accountability
and environmental sensitivity***

OUR GOALS

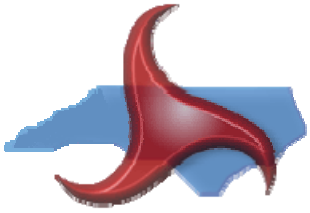
- **Make our transportation network *safer***
- **Make our transportation network move people and goods more *efficiently***
- **Make our infrastructure *last longer***
- **Make our organization a place that *works well***
- **Make our organization *a great place to work***





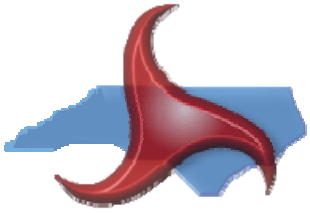
Approach since July

- **Quantitative and Qualitative Criteria**
- **Equity Issues**
- **Statewide or large regional impact**
- **BOT and local input considerations**
- **Programs/Services that have been ignored**



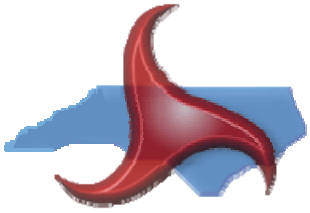
PV Beta Model

- **Technical Criteria**
 - Safety
 - fatal and crash severity rates
 - Last Longer
 - pavement roughness and serviceability ratings
 - Move Efficiently
 - congestion relief, v/c, level of service



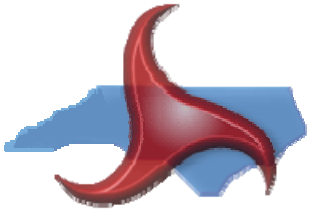
PV Beta Model

- **Qualitative Criteria**
 - Environmental Factor
 - Intermodal Connectivity
 - Geographic Balance/equity
 - Local Priorities
 - Economic Equity



PV Beta Model

- **Discretionary points**
 - Flexible points for BOT input



Brainstorm Questions for Morning Breakouts

Question 1

- 11:10-11:30

Based on NCDOT's new Mission and Goals, what criteria should we use in prioritizing the Department's work?

- How do you prioritize within projects / programs / services?
- How do you compare projects vs. services vs. programs vs. initiatives (examples of each)

Question 2

- 11:30-11:45

What should be critical elements of the process to prioritize?

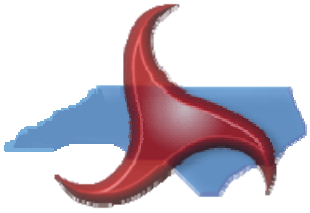
- Get as specific as the time allows: think about involvement of key roles in DOT (inputs); what role key stakeholders should play; timing (every 1 or 3 years), decision-makers, etc.

Question 3

- 11:45-11:55

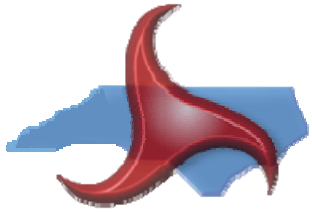
What current DOT resources or potential new resources should be used in this process?

- Think about best practices that exist in DOTs today; potential new roles; new data to be collected; increased capacity in current roles; software available outside of DOT, etc.

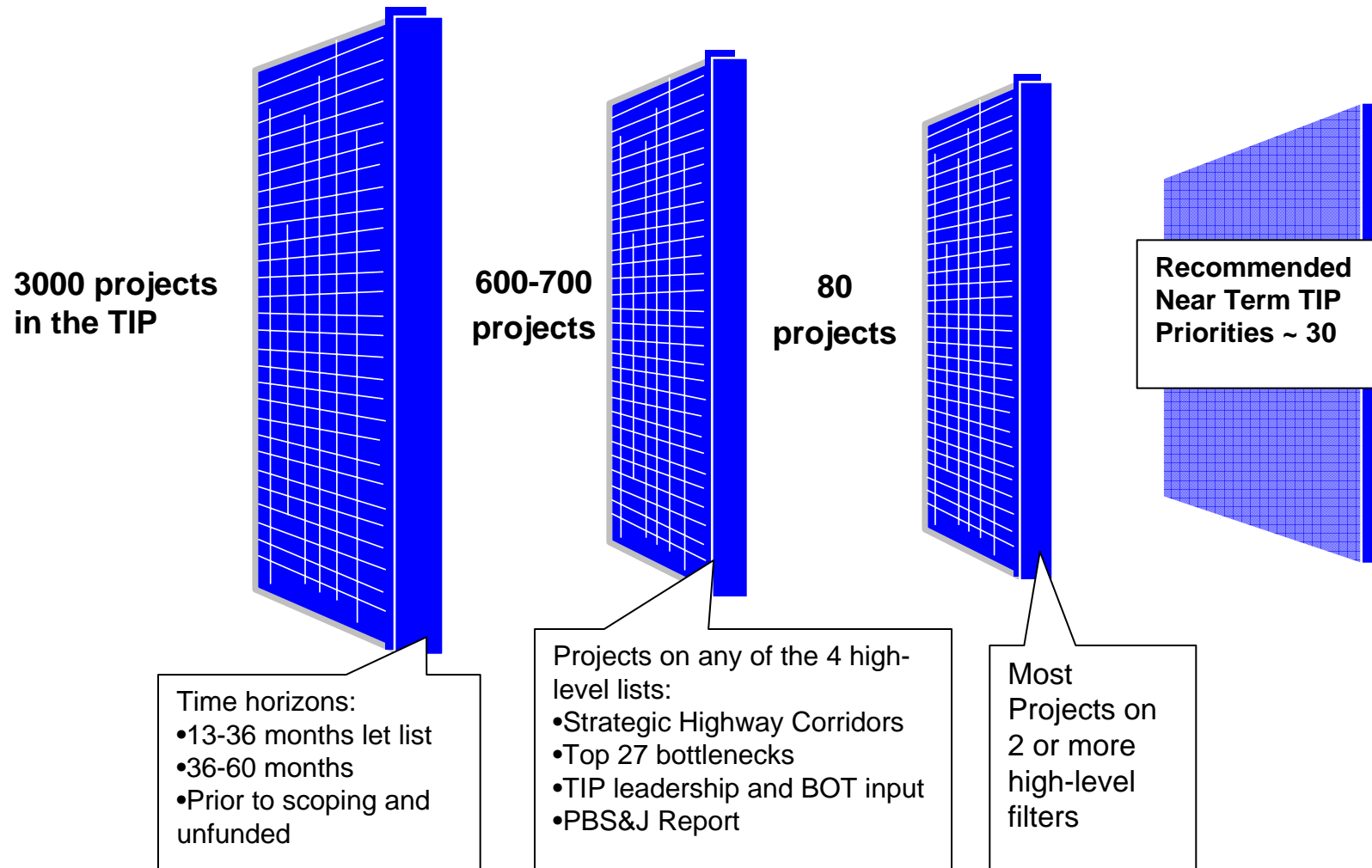


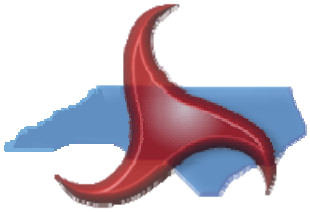
Determining Priorities

- **07-13 TIP Projects - 4 High Level Filters**
- **Programs/Services - Interviewed 25 Leaders**
 - DMV
 - Modal Areas
 - Administration
 - Traffic Safety
 - IT



HOW DID DON AND ALPESH NARROW DOWN THE STIP TO ~30 PROJECTS TO BE CONSIDERED AT THE SUMMIT?

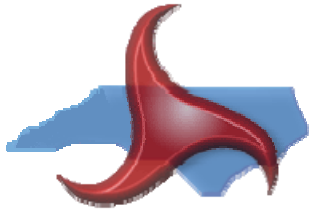




“4 High Level Filters”

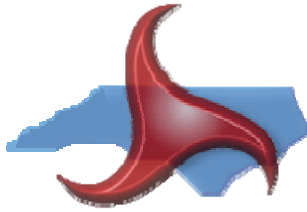
Near-Term TIP Priorities

- **SHC**
 - 5400 miles of 79,000 -- 7% of system
- **TIP / BOT / Division Eng input**
 - equity and historical needs
- **Top 27 Bottleneck Locations**
 - fed request in 2006
- **PBSJ Report**
 - value engineering, high profile projects



Definitions

- **Projects ~ 27**
 - From the 07-13 TIP
 - 13-36 Months (FY 09/10)
 - 36-60 Months (FY 11/12/13)
 - Post Year or Unfunded
 - focus on major bridges and safety issues
- **Programs ~ 21**
 - Formal state or federal programs (ex. Bridge .maint)
- **Services ~ 11**
 - Any support service (ex. DMV, IT)



Business Case For Projects

TIP Number (Time Horizon): (13-36 months let list, 36-60 months, or prior to scoping)

Project Description: A brief summary of the project

Filters Met:

Cost: \$ TIP

Some projects will provoke environmental, political, community, or other opposition, and this may affect the extent to which it is a good choice as a top priority

Challenges/Risk:

Quantitative Analysis around the new NCDOT Mission and Goals

Goal(s) enhanced by proposed initiative

Current Conditions

Expected Benefits

SAFETY = Compared crash severity & fatality rates to statewide and regional tier avg

Note: limited safety data for new location projects

MOVE EFFICIENTLY = Identified bottlenecks, 2005 V/C ratios from SHC map

LAST LONGER = Indicators of pavement roughness (IRI) and service life (PSR)

Improvement to project's cross-section allows for consistency with adjacent sections

If project is in region under 7-year Equity Target

Qualitative Analysis

☒ **Corridor Continuity**

☒ Required by state law

☒ Local priority

☒ Advances econ. development

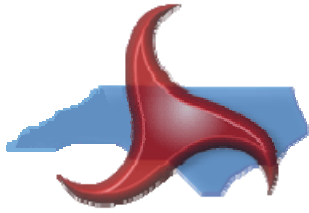
☒ **Environmental benefits**

☒ Earmarked by Fed Law

☒ **Promotes geographic equity**

Minimum wetland/stream mitigation expected

Other Key Point(s) for why this is a Priority:



Business Case For Programs & Services

Program or Service Title: Federal/State program and/or support service
Program or Service Description: A brief summary of the initiative

Cost: \$ _____

Quantitative Analysis around the new NCDOT
Mission and Goals

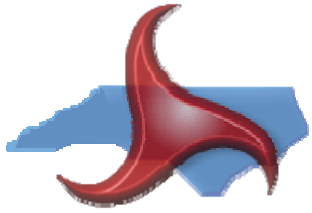
Goal(s) enhanced by proposed initiative	How the initiative will advance this goal	Specific needs this initiative is solving for
Safety	<ul style="list-style-type: none"> What specific actions will the initiative take to further the new DOT goal 	<ul style="list-style-type: none"> Ideally, show statistics demonstrating the magnitude of the need we're solving for
Move efficiently		
Last longer	<p>List each of the new NCDOT goals this initiative will advance. Some will fulfill only one or two goals, while others will advance several or all goals</p>	
A place that works well		
A great place to work		
		<p>Check the appropriate box if an initiative advances these qualitative criteria</p>

Some programs and services will provoke environmental, political, community, or other opposition, and this may affect the extent to which it is a good choice as a top priority

Qualitative Analysis

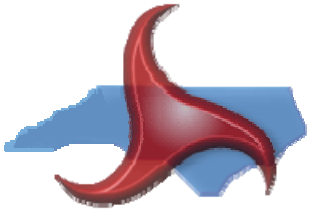
- | | | | |
|---|---|---|--|
| <input type="checkbox"/> Wise use of funds | <input type="checkbox"/> Req'd by state law | <input type="checkbox"/> Improves coordination and communication in NCDOT | <input type="checkbox"/> Advances economic development |
| <input type="checkbox"/> Environmental benefits | <input type="checkbox"/> Req'd by federal law | <input type="checkbox"/> Promotes geographic equity | <input type="checkbox"/> Priority of partner agency |

Other Key Point(s) for why this is a Priority:



Your Charge

- **Validate near-term priorities**
- **Right projects, program, services**
 - why or why not?
- **Input on the BCT (Business Case Template)**
- **Propose other priorities IF they are good candidates**



Reaction Questions For Afternoon Breakouts: Projects

Overall Project List and Filtering Methodology

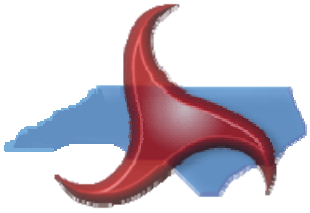
- First reaction to the 4 filters and interview approach for obtaining near-term priorities?
- First reaction to the list of projects?
- Do these projects seem consistent with the new Mission and Goals?
- Manageable number of TIP projects in each of the 3 timeframes? Too big? Too small?

Specific Questions on Projects

- How do you attempt to start separating projects—which ones strongly stand out and why?
- Should there be balance across the type of improvements being made—new location, vs. modernization, vs. maintenance and preservation? Why or why not?
- Do these projects address statewide or regional type impact?
- Which ones might be more local in nature?

Business Case Templates

- Is the Business Case Template (BCT) a good tool to use for future prioritization efforts? If so are there any improvements you would suggest?
- If the BCT is not good tool what other methodologies would you suggest the DOT uses for profiling/highlighting projects, programs, and services?



Reaction Questions For Afternoon Breakouts: Programs And Services

Overall Program or Service List and Filtering Methodology

- First reaction to the 4 filters and interview approach for obtaining near-term priorities?
- First reaction to the list of programs or services?
- Do these programs or services seem consistent with the new Mission and Goals?

Specific Questions on Programs or Services

- How do you attempt to start separating programs or services—which ones strongly stand out and why?
- Do these programs or services address statewide or regional type impact?
- Which ones might be more local in nature?

Business Case Templates

- Is the Business Case Template (BCT) a good tool to use for future prioritization efforts? If so are there any improvements you would suggest?
- If the BCT is not good tool what other methodologies would you suggest the DOT uses for profiling/highlighting projects, programs, and services?

Confidential

Memorandum to:
TMT Members

Synthesis of September 10, 2007 Prioritization Summit

North Carolina Department of Transportation

On September 10th, 2007 more than 50 leaders from across the North Carolina Department of Transportation (NCDOT) gathered in Raleigh to advise the Transformation Management Team (TMT) on the prioritization of projects, programs and services in the near and long terms. This note summarizes the workshop comments and facilitated breakout group discussions on, 1.criteria to use in setting long term priorities, and, 2. specific project, program, and service priorities for NCDOT piloting in the coming 15 months. This note is intended to provide a record of discussion from 10 breakout groups for the consideration of the TMT. It is not a recommendation.

I. LONG TERM CRITERIA

The first breakout discussion focused on three questions. The summary of feedback follows

1. What criteria should we use to prioritize long term programs, projects, and services?

Some of the groups attempted to rank the criteria but there was not consensus on this topic. Nor was there consensus on whether to adopt separate criteria (or weighting) across programs, projects and services, though some groups suggested this also. Suggested criteria included:

- Congestion
- Safety and risk to the public
- Economic impact (e.g., economic development)
- Regional equity considerations

- Environmental impact, compatibility with land use
- A host of relative value for investment-oriented criteria including
 - Efficient use of funds
 - Cost/Benefit comparison of projects to gain greatest impact on objectives
 - ROI
 - Lifecycle cost estimates
 - Impact for investment weighting in VMT terms
- Budget/resource constraints - - demand vs. capacity tradeoffs
- Consistency with the mission and goals of NCDOT - - results that support the mission and goals
- Execution risk (e.g., with a bias toward mitigating and lowering risk to avoid public mistakes)
- System sustainability for projects - - a system view
- Degree of process simplification (e.g., for a program or service)
- Public demand and customer satisfaction (e.g., for services)
- Forward-looking population growth factored into demand
- Regulatory requirements and state and federal law
- Reinforcement of proactive vs. reactive culture - - a bias to ward sending the right signals
- Opportunities to develop people - - professional and technical
- Communications value with internal and external audiences
- Degree of consistency with the Strategic Highway Corridor
- Political factors - - as appropriate

2. What are the critical elements of a process to set priorities for the department (e.g., important phases, stakeholders to include)?

On the question of who is involved, a few common themes emerged regarding designing a process to involve more input from employees and the public (including

local governments) earlier in the planning and choosing stages. Beyond that, the dozens of stakeholders involved today should continue to remain involved. One group underscored the importance of prioritizing at the “point of delivery.” That is, regardless of the project or service nature of the priorities, the people closest to the front line are in the best position to inform the prioritization.

At least two groups debated the degree of emphasis on formula-driven choices vs. judgment calls. The consensus favored “informed” judgment calls with right stakeholders represented at the right points in the fact-gathering.

Other suggestions included

- Prioritize according to a variety of funding scenarios
- Revisit prioritization (especially for programs and services) on an annual or semi-annual basis. Start with a greater frequency and possibly reduce the frequency to every two years as the learning grows and as improvement on key indicators stabilizes. One group suggested updating every 1 to 2 years for projects and every 2 to 4 years for programs
- Reflect the (sunk and variable) cost of changing priorities where possible
- Allow new BUs to set local priorities
- Significantly increase the degree of public communication and expectations management
- Criteria should be applied differently to reflect metropolitan, and rural needs, along with state-wide project needs
- Incorporate results of earlier projects with similar assumptions regarding cost and impact need to be reflected in the new project decision-making
- More than a dozen stakeholder bodies continue to be represented across the groups
- Develop multiple funding and packaged scenarios to reflect different packages and compare them on overall impact
- Revisit priorities in the election cycle
- Make results and choices transparent to our employees and to the public

- Include all modes in packaging of alternatives as all impact the transportation system

3. What resources will be required to improve the decision-making and execution on NCDOT initiatives

Most groups cited the need for better collection and analysis of data. There is a great deal of data being used today but that some is flawed or incomplete. It doesn't get analyzed in a way that recognizes the interdependencies that exist between units of NCDOT and with other state agencies. NCDOT doesn't use the full power of SAP in data gathering and analysis. In summary, the group agreed on the need for a significantly more reliable, more useful, and strategic approach to data collection and analysis. Several suggested new organizational roles in this regard, possibly through the strategic planning group. Or a "database detective squad." Others suggested the need for new sources of data (e.g., crash data with GPS locations) Other ideas included

- Reaching beyond in-house or intra-agency data to analyze and report on externally published reports
- Collecting socio-economic data to inform equity decision-making
- Providing more IT and training support to improve customer service
- Chartering new organizations to improve the degree and quality of public perspective (e.g., local government groups, citizens groups)
- Increasing investment in education to help BOT and MPOs play a more effective role in prioritization
- Testing and deploying new decision-making software
- Creating a new communication office with an objective to solicit proactive public advice on needs and preferences
- Analyzing and communicating project, program, and service impact on performance metrics
- Increasing training and recruitment for skilled program managers

II. NEAR TERM PRIORITIZATION

The afternoon sessions focused on specific near term priorities. Working from documentation on roughly 50 suggested priorities drawn from an exhaustive scan from across the DOT, separate breakout groups assigned to consider projects, programs, and services commented on the filtering criteria used, and offered suggestions for improving the business case templates. Each group provided specific guidance on the four filters used to do the initial prioritization, on the business case templates, and on specific projects, programs and services to be elevated to “pilot” status for quick and highly visible action (including new projects)

1. Improvements to the filters

Both project groups had little interest in the PBS&J report as a filter. They called for greater representation of

- Safety data and expected impact on crash rates as the highest among the priorities
- Specific geographic/local knowledge
- Cost/benefit rating
- “Buildability” - - feasibility and permitting
- SAFETEA-LU limits
- Importance to local areas
- Support/benefit to other units and other entities/agencies (services)
- Impact on performance targets (services)
- Greater recognition of multi-modal/system impact

2. Improvements to the Business Case Templates

Teams surfaced several recommendations primarily regarding the content, but also the design of the templates. In particular, the one size fits all approach to projects, programs and services felt clunky for the programs and services initiatives.

Suggestions included

- Better clarifying guidance regarding the qualitative factors. Otherwise many have elements of all. Particularly for programs and services - -

which are quite broad. Perhaps room for an open-ended list of qualitative benefits would suffice

- Clarity on environmental risks and issues (instead of current wording highlighting the benefits)
- Weighting the value of criteria and having those weights then reflected on the summary value of the project
- Greater reflection of whole network impact
- Some way to bring better clarity to cost/benefit tradeoff and ROI
- Space to show whether the equity formula supports the project (and funding supports in general)
- Include templates for months 60 to 72
- Offer space for secondary benefits (e.g., with a bias toward widening)
- Change wording so that “wise use of funds” falls under “place that works well”
- Cleaner layout (e.g., more lines!)
- Distinguish between internal services and external services
- Reflect WMT increases on roads, or decreases due to alternative modes
- Add a budget filter
- What legal and regulatory requirements does this address (and therefore adds to its significance)
- Alignment with LRTP goals

September 11, 2007

CONFIDENTIAL

Perspective on Funding Sources for NCDOT



Document for Discussion
August 22, 2007

SUMMARY

• **NCDOT needs more funding** to maintain its transportation network, meet its long-term transportation priorities, and support North Carolina's rapid growth.

• **There are 7 new sources of funding NCDOT should explore:***

- Hotel-Occupancy Taxes
- Car Rental Taxes
- Mileage-Based Tolling on Urban Loops
- Local Taxes on Real Property
- Local Taxes on Vehicle Property
- General Fund Transfers
- Utility Encroachment Fees

• **NCDOT should consider increasing 5 of its current sources of funding:**

- Highway Use Tax
- Vehicle Registration Fees
- Motor Vehicle Record Fees for Bulk Purchasers
- Federal Highway Trust Fund Returns
- Debt Financing

• **From these sources of funds, there are three combinations which could bear major returns for NCDOT:**

- Going for a shot-in-the arm win with across-the-board increases in local property taxes
- Tapping sources of funding most directly related to transportation, such as tolling urban loops and raising the Highway Use Tax
- Focusing tax and fee increases on businesses and out-of-state citizens, by beginning statewide hotel-occupancy taxes and car rental taxes, increasing motor vehicle record fees for bulk purchasers, and instituting encroachment fees

As requested in the contract, McKinsey was asked to provide a perspective on alternate funding scenarios should the state of North Carolina decide to seek additional funding for transportation. Impact sizings are preliminary

*Two additional sources of funding were examined: transit advertising and "goldplating" fees, where localities would pay NCDOT for service improvements above a certain baseline level (e.g., requesting iron lampposts instead of fiberglass lampposts). Transit advertising was judged to be too small a source of revenue for North Carolina. It was found that localities already pay for most goldplating activities.

GIVEN CURRENT TRENDS, NORTH CAROLINA MUST SEEK NEW SOURCES OF FUNDING FOR ITS TRANSPORTATION NETWORK

Strain of external trends

Growing Demand on System

- *Doubling of VMT by 2030*
- *NC population projected to grow by 50% between 2000 and 2030, "7th most populous state by 2030"*

Increasing Cost of Supplies

- *80% construction supplies inflation since 2002*
- *Spike in global asphalt, cement, and steel prices expected to continue*

Declining Funding from Current Sources

- *State gas tax purchasing power has declined (inflation and mpg)*
- *Federal Highway Trust Fund program projected to run out of funding by 2009*
- *Transportation funding flat/declining for FY2008/09**

ASCE Report Card

**NC current state:
Bridges C-, Roads D**

Airports	D+
Bridges	C-
Dams	D
Drinking Water	C+
Rail	B-
Roads	D
Schools	C-
Storm Water	C-
Waste Water	C-

NC GPA

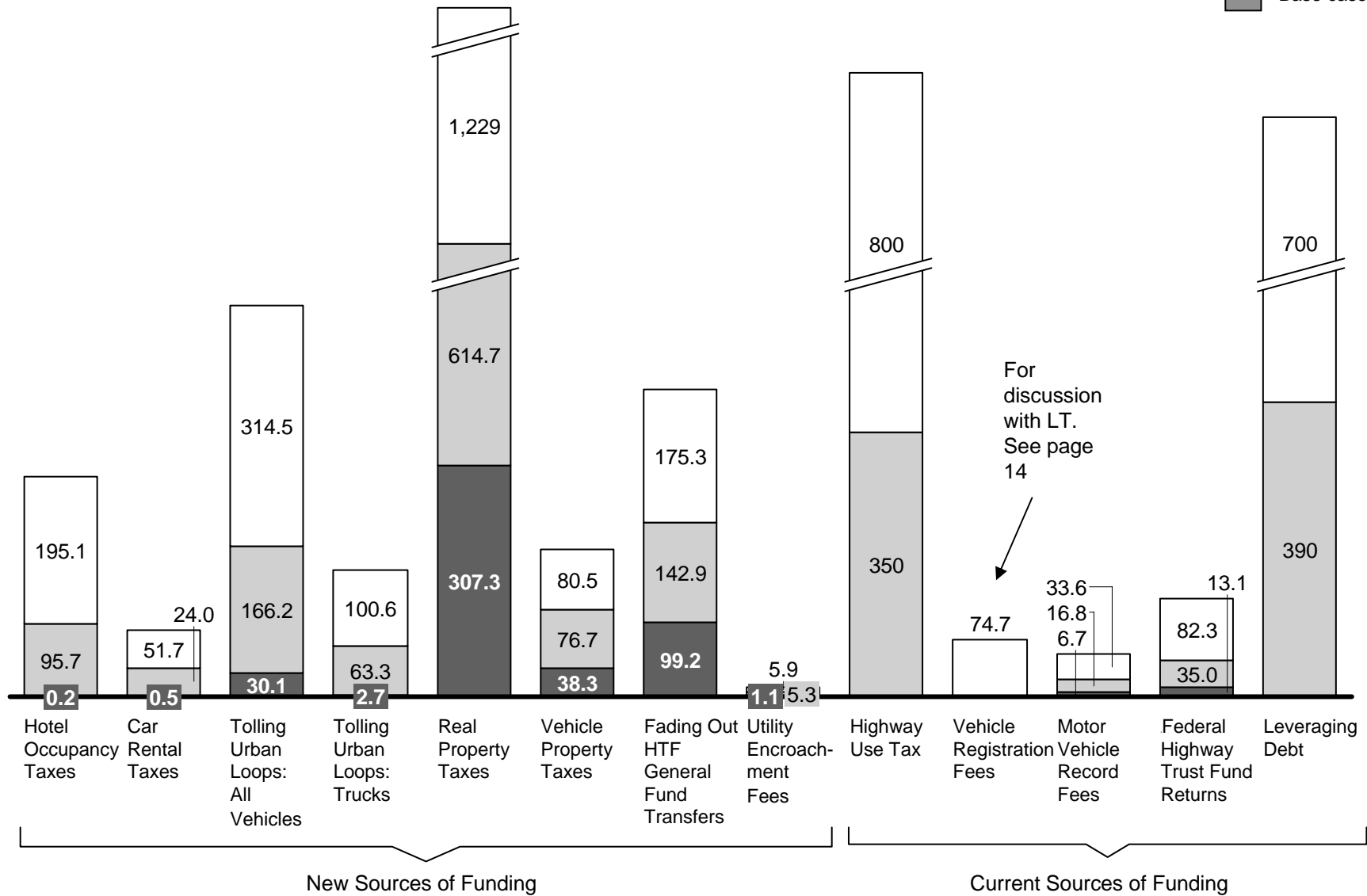
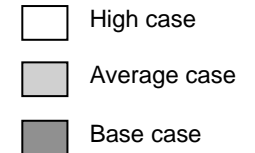
C-

**On current course,
overall grade will
drop to a D in 6
years**

* Gas tax cap and increased other agency support
Source: ASCE Report Card; NCDOT internal data

REVENUE POSSIBILITIES FOR NCDOT

\$ Millions, Year 1 additional revenues*



* Except Leveraging Debt, which measures additional revenues every other year over an 8-year period; and General Fund transfers, which measures average annual return over an 8-year period

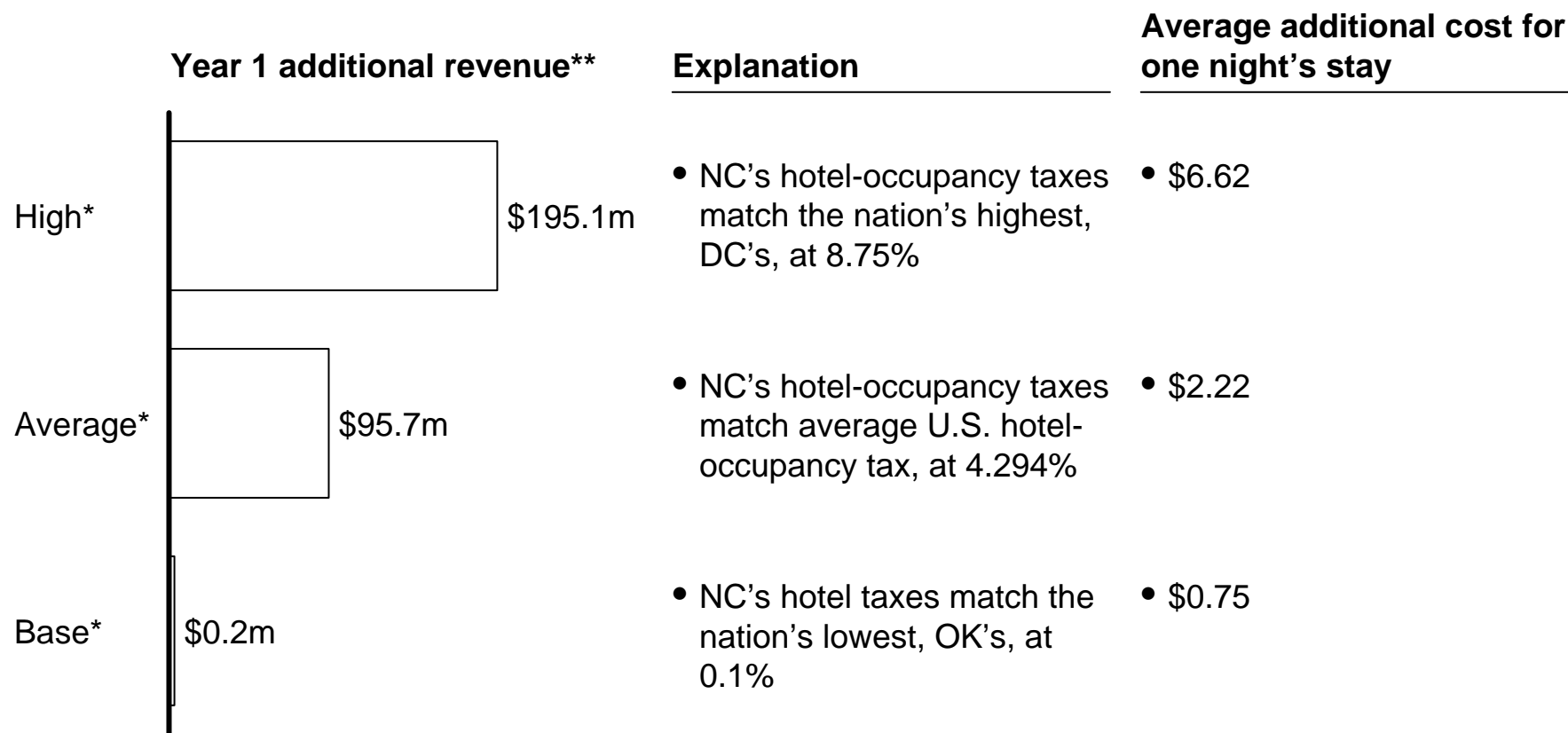
THREE POSSIBLE FUNDING SCENARIOS COULD BEAR SIGNIFICANT FINANCIAL RETURNS FOR NCDOT

	Funding Sources Tapped	Year 1 Additional Funding	Implications
NCDOT goes for the biggest single win	<ul style="list-style-type: none"> • Local taxes on real property 	\$307 million-\$1.2 billion	<ul style="list-style-type: none"> • Will require probable concessions to localities • Will cost North Carolina homeowners an additional \$54-\$216 per year
NCDOT increases funding from sources most directly related to transportation	<ul style="list-style-type: none"> • Car-Rental Taxes • Tolling Urban Loops • Vehicle Property Taxes • Encroachment Fees • Highway Use Tax • Vehicle Registration Fees • Motor Vehicle Record Fees 	\$424 million-\$1.3 billion*	<ul style="list-style-type: none"> • All tax increases not likely to be approved simultaneously • Tolling urban loops will require partnership with NCTA • Potential impacts on telecom and utility investment in NC
NCDOT focuses tax and fee increases on out-of-staters and businesses	<ul style="list-style-type: none"> • Hotel Occupancy Taxes • Car-Rental Taxes • Encroachment Fees • Motor Vehicle Record Fees 	\$8.5 million-\$286 million*	<ul style="list-style-type: none"> • Potential impacts on state tourism • Potential impacts on telecom and utility investment in NC

* Range assumes all tax and fee increases will be approved.

CAPTURING REVENUE FROM HOTEL-OCCUPANCY TAXES

\$ Millions



* Benchmarking based on all U.S. states which charge hotel-occupancy taxes. For comparison purposes, amount of hotel-occupancy tax adjusted based on whether states charge hotel-occupancy tax in addition to or instead of state sales tax. For example, DC's official hotel-occupancy tax is 14%, but this is levied in place of DC sales tax of 5.25%, making effective hotel-occupancy tax 8.75%. Hawaii's official hotel-occupancy tax is 7.25% and is charged in addition to 4.712% on checkout, making effective hotel-occupancy tax 7.25%.

**NC revenue estimates based on total hotel rooms in 2006 (134,390), average occupancy (60.1%), and average room price (\$75.63).

Source: McKinsey research; Commerce Clearinghouse Tax Research Network.

CAPTURING REVENUE FROM CAR RENTAL TAXES

\$ Millions

	Year 1 additional revenue**	Explanation	Additional cost for a one-day \$100 car rental
High*	\$51.7m	<ul style="list-style-type: none"> NC's car rental taxes match the nation's highest, AK's, at 10% 	<ul style="list-style-type: none"> \$10
Average*	\$24.0m	<ul style="list-style-type: none"> NC's car rental taxes match the national average, at 4.6361% 	<ul style="list-style-type: none"> \$4.64
Base*	\$0.5m	<ul style="list-style-type: none"> NC's car rental tax matches the nation's lowest, OK's, at 0.1% 	<ul style="list-style-type: none"> \$0.01

* Benchmarking based on all U.S. states which impose car-rental taxes. For comparison purposes, amount of car-rental tax adjusted based on whether states charge car-rental tax in addition to or instead of state sales tax. For example, Maine's official car-rental tax is 10%, but this is levied in place of Maine sales tax of 5% at the time of transaction, making effective car-rental tax 5%. Minnesota's official car-rental tax is 9.2% and is charged in addition to state sales tax of 6.5% at the time of transaction, making effective car-rental tax 9.2%. Note that the states which charge flat-fee car-rental taxes, FL and NM, were not included in the calculation. Florida charges a \$2/day fee; NM charges a 5% tax and a \$2/day fee.

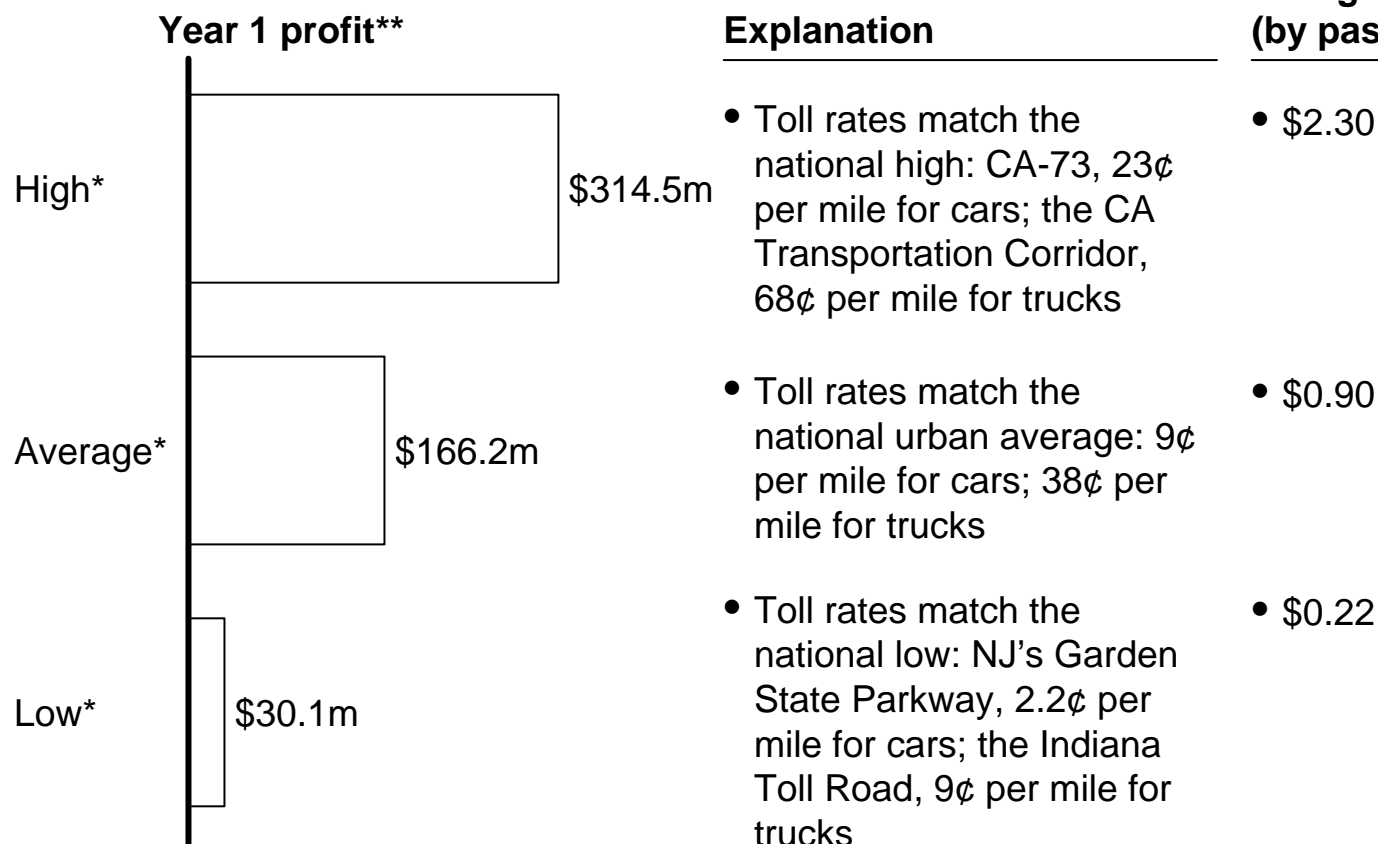
**2007 NC car-rental industry revenue estimated at \$517.4 million. Projection based on 1997 and 2002 National Economic Censuses, which list total U.S. revenue from the U.S. car-rental industry and NC's share of total U.S. revenue. In 2002, total U.S. car-industry revenue was \$18.6 billion; NC's share was 2.29%.

Source: McKinsey research; 1997 and 2002 National Economic Census; Commerce Clearinghouse Tax Research Network.

INSTITUTING MILEAGE-BASED TOLLING ON URBAN LOOPS: TOLLING ALL VEHICLES***

\$ Millions

Average additional cost for
a single 10-mile trip
(by passenger car)****



* Benchmarking of toll rates per mile based on a selection of most toll roads in the U.S.

**NC revenue estimates based on 2005 traffic counts (the last year for which data is available), expected diversion to free routes, and toll evasion rates in other states. Diversion rates are extrapolated from a scientific study in a neighboring state (effects of tolling I-81 in VA). Cost estimates based on the median operating expenses per mile of several U.S. tolling authorities, excluding initial capital expenses.

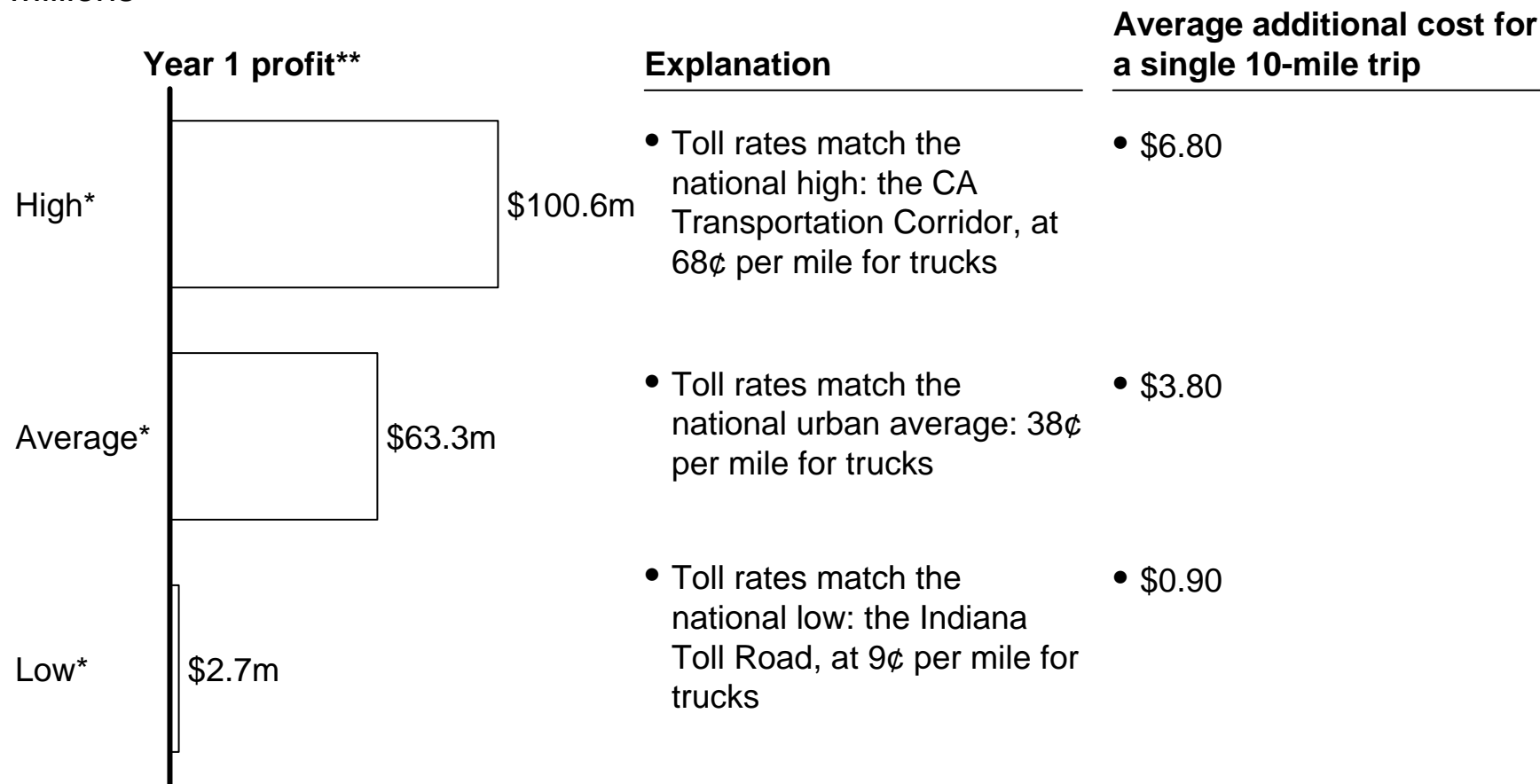
***Future expected yearly revenue will far exceed these figures because diversion rates erode over time, highway traffic can be expected to follow past upward trends, and only 72.43 miles of a total 297.43 miles of interstate loops have been built to date.

****The average additional cost over a year for a 10-mile daily commute (by car) would be \$1,150 with the high toll, \$450 with the average toll, or \$110 with the low toll.

Source: McKinsey research; GIS data; Virginia DOT toll impact study; news reports and academic studies on tolling rates; tolling authority websites

INSTITUTING MILEAGE-BASED TOLLING ON URBAN LOOPS: TOLLING COMMERCIAL TRUCKS ONLY***

\$ Millions



* Benchmarking of toll rates per mile based on a selection of most toll roads in the U.S.

**NC revenue estimates based on 2005 traffic counts (the last year for which data is available), expected diversion to free routes, and toll evasion rates in other states. Diversion rates are extrapolated from a scientific study in a neighboring state (effects of tolling I-81 in VA). Cost estimates based on the median operating expenses per mile of several U.S. tolling authorities, excluding initial capital expenses.

***Future expected yearly revenue will far exceed these figures because diversion rates erode over time, highway traffic can be expected to follow past upward trends, and only 72.43 miles of a total 297.43 miles of interstate loops have been built to date.

Source: McKinsey research; GIS data; Virginia DOT toll impact study; news reports and academic studies on tolling rates; tolling authority websites

INCREASING LOCAL TAXES ON REAL PROPERTY

\$ Millions

	Year 1 additional revenue**	Explanation	Additional taxes for the average NC homeowner***
High*	\$1,229m	<ul style="list-style-type: none"> Average local real property tax rate is raised by 0.2% (20¢ per \$100) 	<ul style="list-style-type: none"> \$216.60
Average*	\$614.7m	<ul style="list-style-type: none"> Average local real property tax rate is raised by 0.1% (10¢ per \$100) 	<ul style="list-style-type: none"> \$108.30
Base*	\$307.3m	<ul style="list-style-type: none"> Average local real property tax rate is raised by 0.05% (5¢ per \$100) 	<ul style="list-style-type: none"> \$54.15

* No localities in neighboring Southeastern states were found to have increased property taxes to fund transportation projects. Benchmarking based on sales taxes localities in neighboring Southeastern states have added to fund transportation projects. High case is Beaufort County, SC, which charges an additional 1% sales tax to fund transportation projects. 1% was discounted to 0.2%, given recent statewide sales tax decreases.

**Total valuation of real property in NC in FY2007: \$614,693,874,746.

***Average value of a home in North Carolina in 2000: \$108,300.

Source: NC 2007 Taxable Real Property by County; 2006-07 Tax Rates Per \$100 Assessed Valuation; U.S. Census 2000; McKinsey research

INCREASING LOCAL VEHICLE PROPERTY TAXES

\$ Millions

	Year 1 additional revenue**	Explanation	Additional taxes for the average NC car-owner
High*	\$80.5m	<ul style="list-style-type: none"> Vehicle property taxes are raised 5%, and NCDOT collects 95% of tax revenues. 	<ul style="list-style-type: none"> \$5.90***
Average*	\$76.7m	<ul style="list-style-type: none"> NCDOT collects 95% of current vehicle property tax revenues, up from 85%. 	<ul style="list-style-type: none"> None
Base*	\$38.3m	<ul style="list-style-type: none"> NCDOT collects 90% of current vehicle property tax revenues, up from 85%. 	<ul style="list-style-type: none"> None

*Based on the following assumptions: (1) Localities currently collect 85% of local vehicle property tax revenue, (2) NCDOT will have better enforcement once collection authority is transferred to it, and (3) NCDOT will be able to retain the revenues it collects over the 85% baseline.

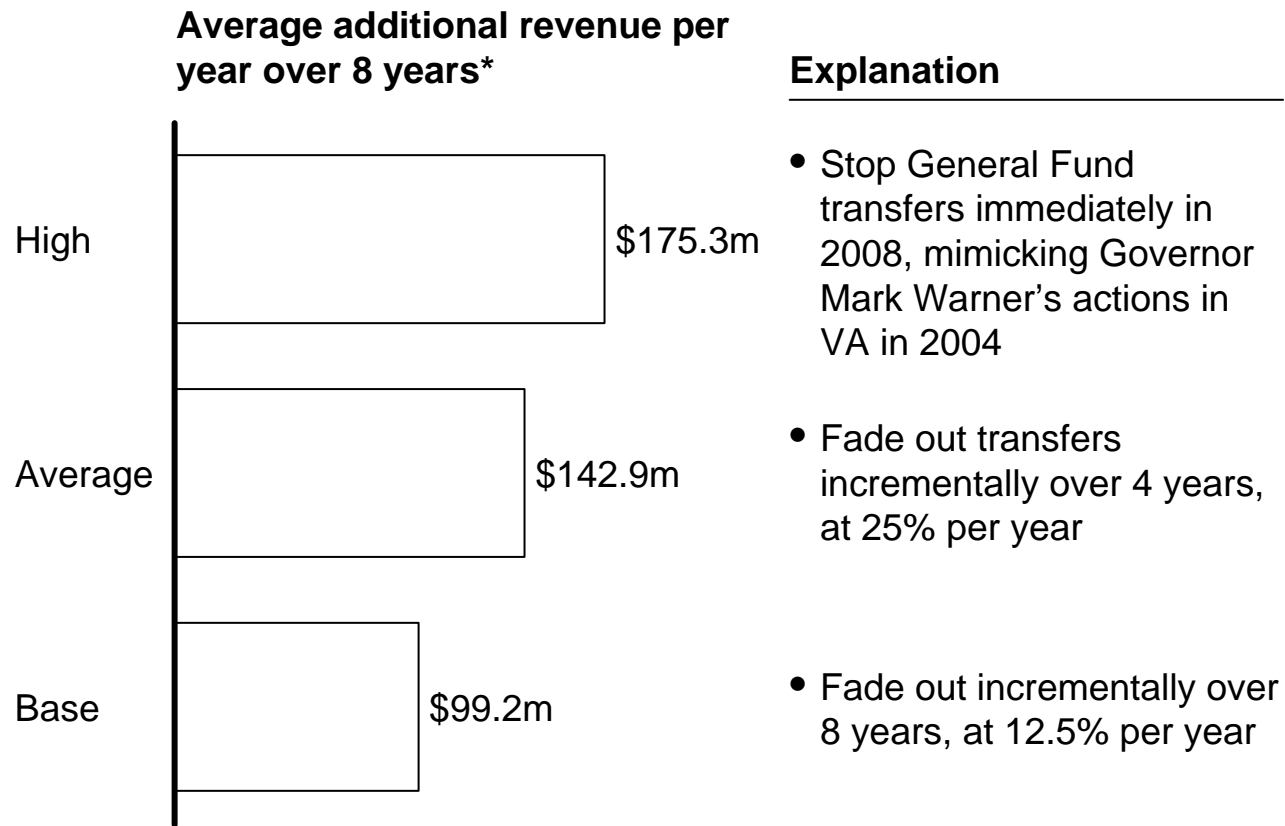
**Valuation of classified registered motor vehicles in NC in FY2007 was \$70,853,483,504. Given 1.082% average jurisdictional property tax rate, and assuming 100% collection, total NC vehicle property tax revenue for FY2007 should have been \$766,634,692. Assuming 85% collection rate, total NC vehicle property tax revenue for FY2007 was \$651,639,488.

*** A 5% increase in vehicle property taxes equals \$38.3 million in additional revenues. Total number of vehicle registrations in FY2007 was 6,493,642. \$38.3 million divided by 6,493,642 registrations equals ~\$5.90.

Source: NCDOT, Edmunds

FADING OUT HTF TRANSFERS TO THE GENERAL FUND

\$ Millions

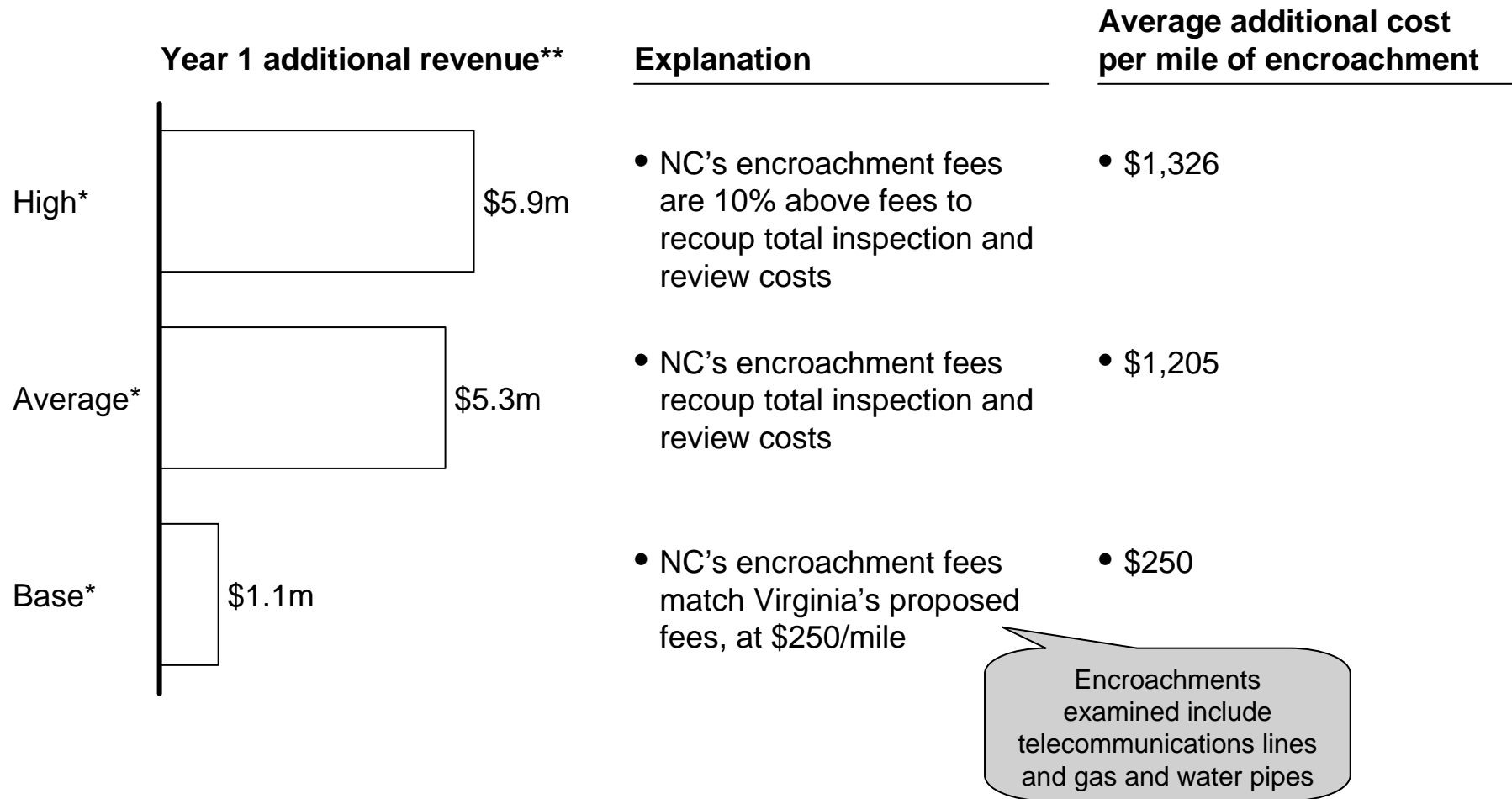


*8-year time period chosen to correspond with proposed Strategic Planning cycles. Growth rate in General Fund transfers from 2007 through 2015 metered at .1159%, based on known growth rate in transfers between 2008 and 2009.

Source: Conference Report on the Continuation, Capital, and Expansion Budget; McKinsey research

INSTITUTING UTILITY ENCROACHMENT FEES

\$ Millions



* Benchmarking based on surrounding states. Only Virginia has proposed a system for charging for encroachments. This July, the Transportation Board proposed charging \$250 per mile of encroachment.

**Division managers provided estimates for number of linear feet of encroachments reviewed per year in their divisions and estimates for the number and type of employees who review encroachments. Multiplying total employees per each type by pay level, we computed the total dollars spent in 2006 on reviewing and inspecting encroachments. We divided total miles of encroachments by total amount spent reviewing and inspecting to arrive at total amount spent per mile, ~\$1,205.

Source: NCDOT Division Managers; McKinsey research.

RAISING THE HIGHWAY USE TAX

\$ Millions

	Year 1 additional revenue**	Explanation	Average additional amount paid per car purchase***
High*	\$800m	<ul style="list-style-type: none"> NC raises highway use tax by 4%, to equal TN's state vehicle sales tax of 7% 	<ul style="list-style-type: none"> \$510
Average*	\$350m	<ul style="list-style-type: none"> NC raises highway use tax by 1.75%, to equal the average vehicle sales tax of its neighboring states** 	<ul style="list-style-type: none"> \$223

* Benchmarking based on vehicle sales taxes in neighboring states: VA = 3%; SC = 5%; TN = 7%; GA = 4%. Average of VA, SC, TN, and GA=4.75%. Note that if Florida and Texas, whose respective state vehicle sales taxes are 6% and 6.25%, were included in the calculation of the average case, the average tax would be 5%, yielding an additional \$50 million for NC under the average-case scenario.

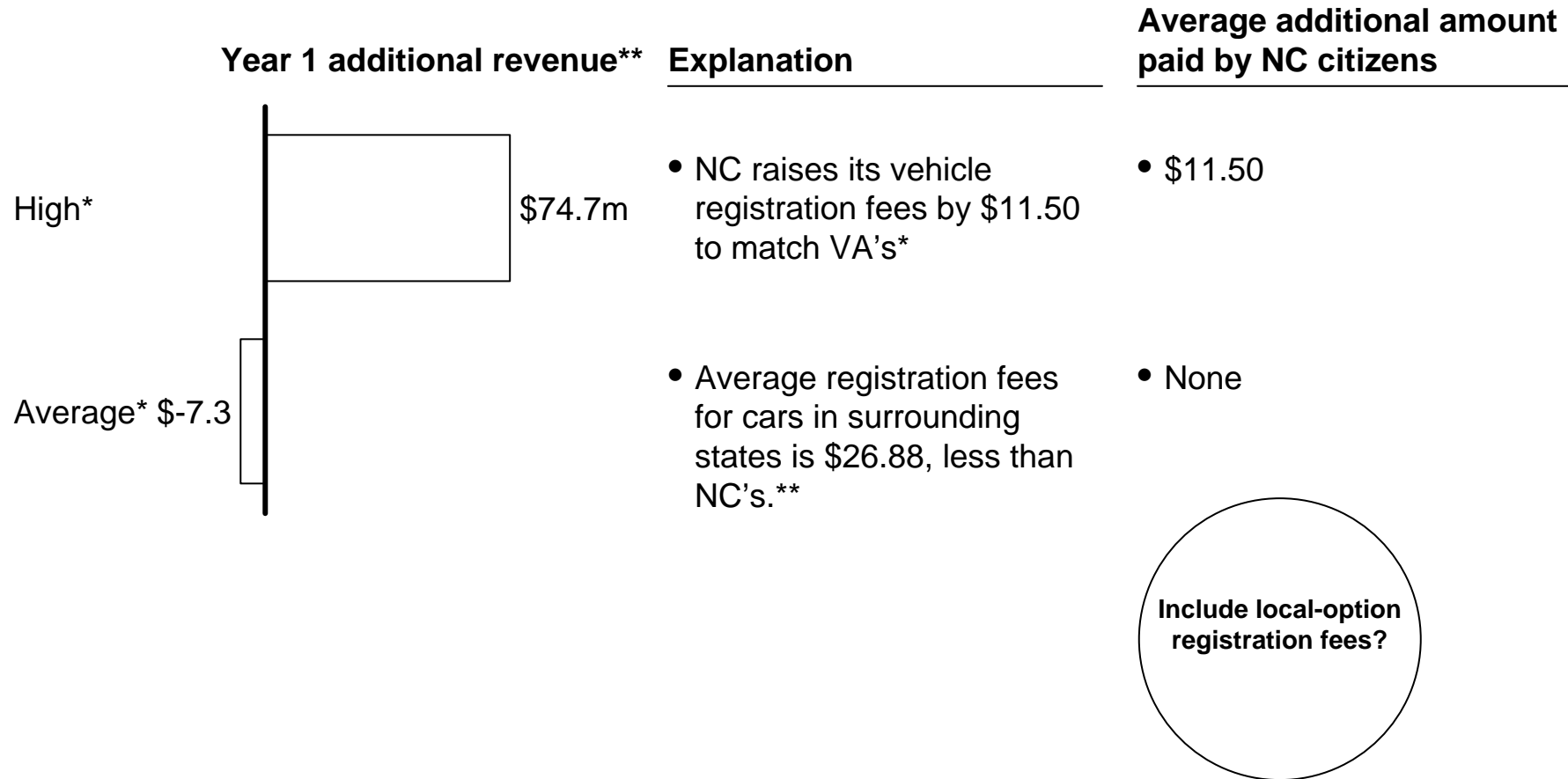
** Based on assumption that every one percent of the Highway Use Tax yields \$200 million in revenue for the state.

*** Average price of a car in the United States in 2005 was \$12,752.

Source: McKinsey research; Bureau of Transportation Statistics

RAISING VEHICLE REGISTRATION FEES

\$ Millions



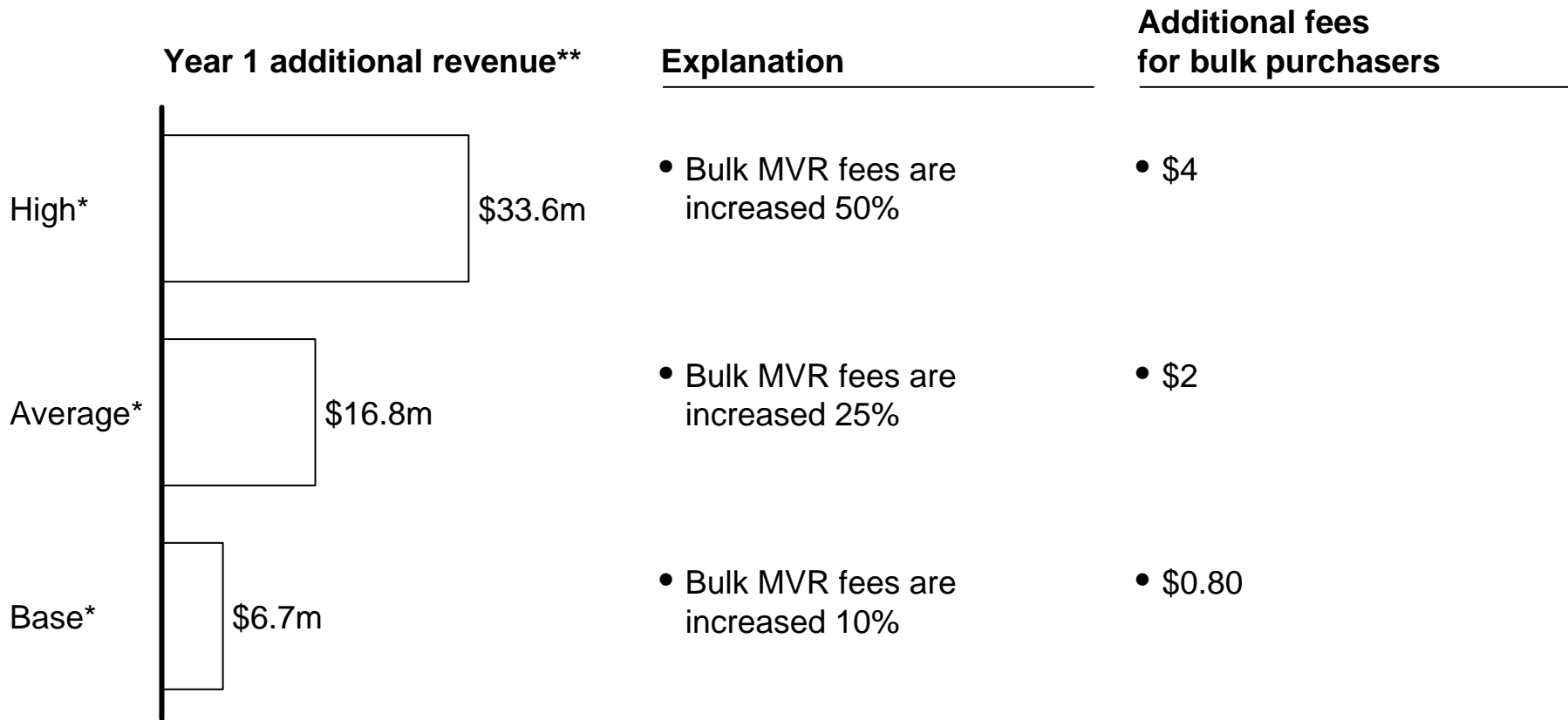
* Benchmarking based on vehicle registration fees for private automobiles and trucks in NC's neighboring states: VA=\$39.50, SC=\$24, TN=\$24, GA=\$20

** Total vehicle registrations in NC in FY2007 was 6,493,642. Note that Texas' vehicle registration fee is \$50.80. If this were considered the high case, NC's revenues would rise by \$148.1 million. Note that if Florida and Texas were included in the calculation of the average case, their vehicle registration fees, respectively at \$35.10 and \$50.80, would push the average-case rate to \$32.23. Were NC to raise its registration fees to \$32.33, it would yield an additional \$27.5 million for the state.

Source: McKinsey research

RAISING MOTOR VEHICLE RECORD FEES FOR BULK PURCHASERS

\$ Millions



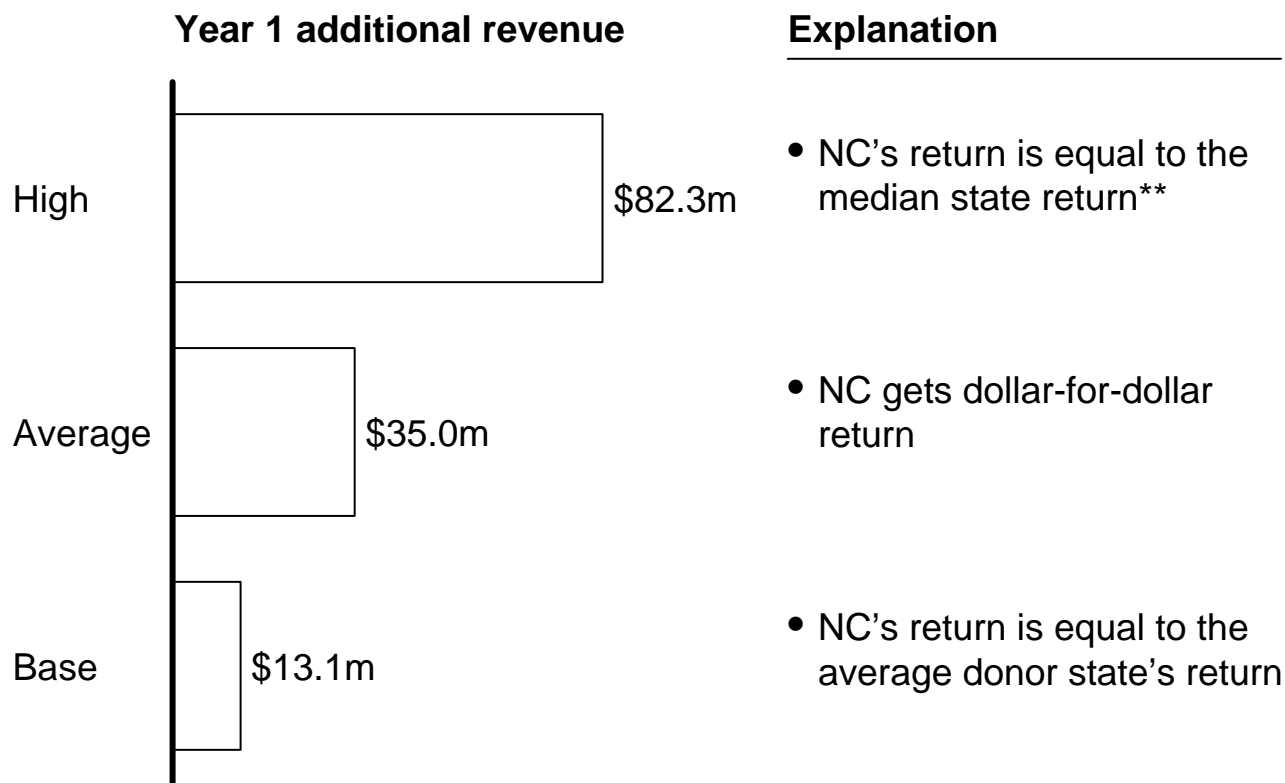
*No benchmarking data was found on what neighboring states charge for bulk MVR requests. Average individual requests for neighboring states (VA, SC, TN, GA) are \$6.50 for limited MVRs and \$7.75 for certified MVRs. Highest-case in the United States is Rhode Island, which charges a \$19.50 flat fee for all record requests.

**Number of bulk MVR requests in 2006 in NC was 8,393,623, at \$8 each. Total revenue from bulk requests, based on these numbers, was \$67,148,984.

Source: NC DMV.

GETTING NC'S FAIR SHARE OF RETURNS FROM CONTRIBUTIONS TO THE FEDERAL HIGHWAY TRUST FUND*

\$ Millions



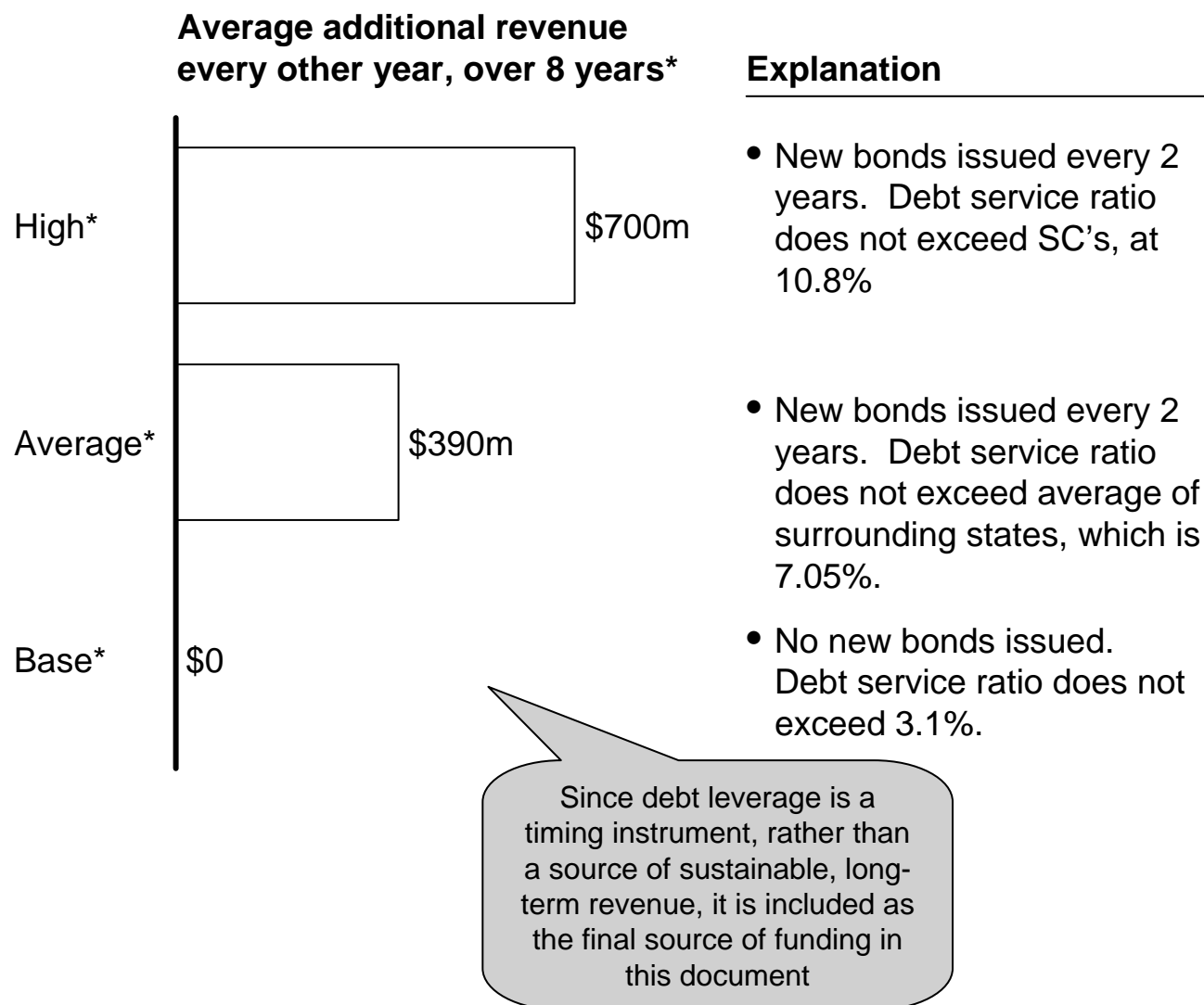
* Based on historical transfers between 1957 and 2005, North Carolina's return ratio is 0.9. Average amount contributed per year between 1957 and 2005 was ~\$364 million.

** Median state ratio=1.13. Median state ratio taken instead of mean state ratio to discount outlying states, e.g. Alaska, Hawaii, and the District of Columbia, whose return ratios are well above the national average. Average donor state ratio=0.94.

Source: Federal Highway Administration

INCREASING NCDOT'S ABILITY TO LEVERAGE DEBT

\$ Millions









*Benchmarking of debt/service ratios done on states surrounding NC: SC=10.80; VA=3.30. Note: Still waiting on data from GA and TN.





**8 year time period chosen to correspond with projects programmed in TIP.

Source: NCDOT Cash Management Unit; North Carolina State Treasurer's Office, "Debt Affordability Study 2007"







APPENDIX





EVALUATION OF OUR ESTIMATES (1 of 2)

	Precision of Inputs	Explanation	Suggested next steps
Hotel Taxes		Good data on number of hotel rooms in NC, average occupancy in 2006, and average room price	Gather 2007 data in January 2008
Car Rental Taxes		Revenue projections for NC car-rental industry based on 1997 and 2002 National Economic Census	Cross-check with 2007 National Economic Census; contact Alaska and Minnesota Departments of Revenue to check profitability of tax
Tolling Urban Loops		Average distance traveled by cars estimated; diversion rates projected based on data from other U.S. roads	Get more exact measures of distance traveled on loops; pilot toll program on one section of one loop to assess diversion rates
Real Property Taxes		Good data on valuation of real property in NC, but unknown what proportion of taxes are actually collected	Identify what proportion of real property taxes are actually collected
Vehicle Property Taxes		Good data on valuation of vehicle property in NC, but unknown what proportion of taxes are actually collected	Identify what proportion of vehicle property taxes are actually collected
HTF General Fund Transfers		General Fund transfers can change significantly from year to year	Monitor OSBM revenue projections

 =precise data for inputs;
  =very good data, but some lack of clarity;
  =good data, but variability year to year;
  =data based on estimates

EVALUATION OF OUR ESTIMATES (2 of 2)

	Precision of Inputs	Explanation	Suggested next steps
Encroachment Fees		Very rough estimates of number and length of encroachments, as well as time spent in review and inspection, made by division managers	For one year, conduct exact record-keeping of number and length of encroachments per division, and hours spent reviewing encroachments
Highway Use Tax		Estimates based on rule of thumb that every one percent of the Highway Use Tax produces \$200 million in revenue	Get exact numbers on number of vehicles sold per year in North Carolina and average vehicle price
Registration Fees		Good data on numbers of automobiles and light trucks sold in North Carolina in 2006	Benchmark other states around the U.S. to see what the highest-case registration fees are
MVR Fees		Good data on number of bulk MVRs sold last year	Assess growth rates from year to year
Fair Share of Returns		Good data on historical payments to and allocations and apportionments from Federal Highway Trust Fund, 1957-2005, but variability year to year	Assess on a year-by-year basis
Leveraging Debt		Good debt affordability assumptions from Treasury Dept. study, but minor adjustments due to bond market fluctuations may be needed.	Request that State Treasurer's office review calculations

 =precise data for inputs;
  =very good data, but some lack of clarity;
  =good data, but variability year to year;
  =data based on estimates

STATE TAX PROFILES

	Sales	Income (Low-High)	Property
North Carolina	4.25	6-8	Local
Virginia	4	2-5.75	Local
South Carolina	6	2.5-7	Local
Georgia	4	1-6	Local
Tennessee	7	Limited to Dividends and Interest	Local

Source: FTA

DETAILED DATA FOR TOLLING URBAN LOOPS

REVENUE SUMMARY

Loop	Low toll yearly revenue (includes cars and trucks)	Average toll yearly revenue (includes cars and trucks)	High toll yearly revenue (includes cars and trucks)	Low toll on trucks only yearly revenue (includes trucks only)	Avg toll on trucks only yearly revenue (includes trucks only)	High toll on trucks only yearly revenue (includes trucks only)
Charlotte	33,468,147.41	127,315,190.47	229,644,632.80	14,559,183.35	56,374,734.76	82,101,310.04
Raleigh	9,538,916.96	36,286,712.10	65,452,116.47	4,149,582.57	16,067,633.11	23,400,087.52
Greensboro	5,513,767.28	20,974,759.17	37,833,198.45	2,398,577.60	9,287,552.26	13,525,920.98
TOTAL	\$48,520,831.66	\$184,576,661.74	\$332,929,947.72	\$21,107,343.52	\$81,729,920.13	\$119,027,318.54

COST SUMMARY

Loop	Cost
Charlotte	11,705,713.82
Raleigh	3,401,244.20
Greensboro	3,283,341.23
TOTAL	\$18,390,299.25

PROFIT SUMMARY

Loop	Low toll yearly profit	Average toll yearly profit	High toll yearly profit	Low toll on trucks profit	Avg toll on trucks only profit	High toll on trucks profit
Charlotte	21,762,433.59	115,609,476.65	217,938,918.98	2,853,469.53	44,669,020.94	70,395,596.22
Raleigh	6,137,672.76	32,885,467.90	62,050,872.28	748,338.37	12,666,388.92	19,998,843.33
Greensboro	2,230,426.05	17,691,417.93	34,549,857.22	-884,763.63	6,004,211.03	10,242,579.74
TOTAL	\$30,130,532.41	\$166,186,362.49	\$314,539,648.47	\$2,717,044.27	\$63,339,620.88	\$100,637,019.29

DETAILED DATA FOR TRANSPORTATION TAXES AND FEES

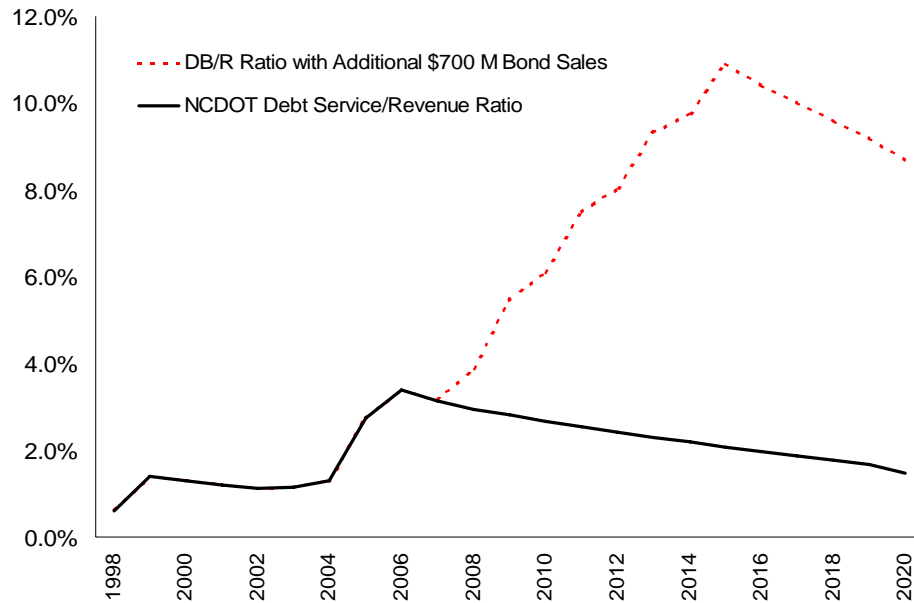
Bringing North Carolina's Taxes and Fees Up to Par with Other States

Source	NC	VA	SC	TN	GA	Average	NC Volume**	FY 2007 Revenue	Average Case (\$)	Change (\$)	High Case (\$)	Change (\$)
<u>TRANSPORTATION TAXES</u>												
State Motor Fuel Tax (c/g)	0.297	0.175	0.16	0.2	0.213	0.187	5,326,948,532	\$1,582,103,714.00	\$996,139,375.48	(\$585,964,338.52)	\$1,582,103,714.00	\$0.00
State Vehicle Sales Tax (%)	0.03	0.03	0.05	0.07	0.04	0.0475	N/A	\$605,047,356.00	\$1,005,047,356.00	\$350,000,000.00	\$1,405,047,356.00	\$800,000,000.00
<u>TRANSPORTATION FEES</u>												
Registration Fees	28	39.5	24	24	20	26.875	6,493,642	\$181,821,976.00	\$174,516,628.75	(\$7,305,347.25)	\$256,498,859.00	\$74,676,883.00
Drivers Licenses (\$/year)	4	4	2.5	3.9	4	3.6	6,900,000	\$27,600,000.00	\$24,840,000.00	(\$2,760,000.00)	\$27,600,000.00	\$0.00
Certificates of Title (\$)	\$40	10	15	10.5	18	\$13.38	2,455,482	\$98,219,280.00	\$32,842,071.75	(\$65,377,208.25)	\$98,219,280.00	\$0.00

*Highway Use Tax in NC

**Volume in (1) Gallons, (2)%, (3) Number of automobiles and light trucks sold, (4) Number of driver's licenses, (5) Number of title transactions

DETAILED DATA FOR LEVERAGING DEBT

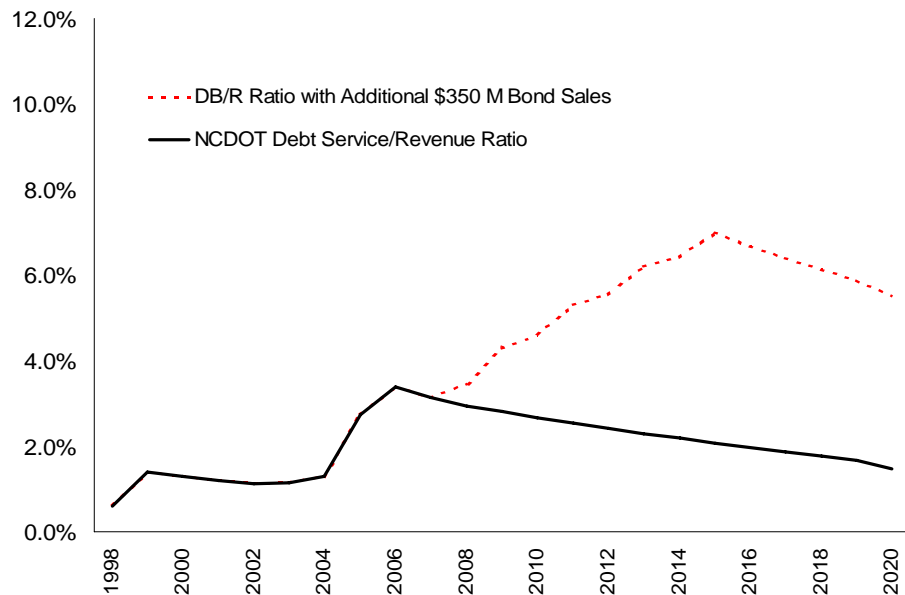


Debt Structuring Assumptions

- 4% rate
- 15 year maturity
- Annual Principal payment (approximately 1/15 of bond amount)
- Semi-annual interest payment

Revenue Projections

- From NCDOT Long-Range (25 revenue projections)
 - Motor Fuel Gas Tax capped at 29.9 cents
 - Highway Fund* average annual growth 1.33%
 - Highway Trust Fund* average annual growth 1.83%



* Gross revenues (does not include transfers to other agencies or GF)

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Organizational Effectiveness Options



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TODAY'S DISCUSSION

Objectives

Agree on next steps for the effectiveness workstream:

- Which options for structural change deserve further investigation
- Timeline for implementation

Agenda

- Review team's analysis of the most significant structural challenges facing NCDOT
- Review the spectrum of options for overcoming each challenge:
 - **Low-touch** options, requiring new linkages or additions to NCDOT's current structure, but no major reorganization
 - **Medium-touch** options, requiring some structural change
 - **High-touch** options, requiring major structural shifts
- Review and discuss pros and cons of each option
- Decide which options deserve further investigation
- Decide timeline and other next steps

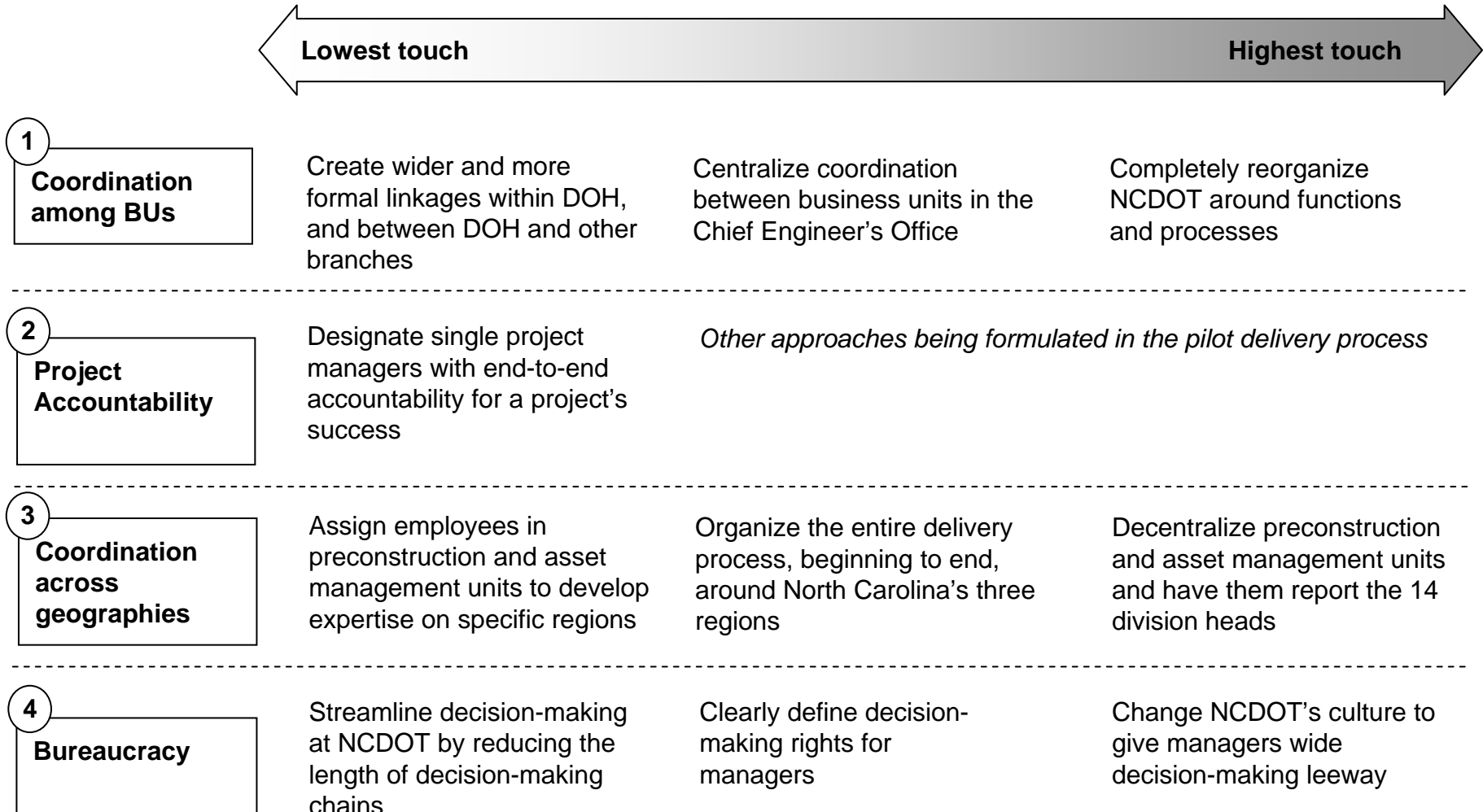
THE EFFECTIVENESS WORKSTREAM HAS IDENTIFIED 4 MAJOR STRUCTURAL CHALLENGES AT NCDOT

- A silo culture across the Department, leading to limited coordination among business units
 - Insufficient accountability for project delivery
 - Inconsistent coordination across geographies in planning, designing, delivering, and maintaining projects
 - A slow, sometimes bureaucratic decision-making process across the organization
-

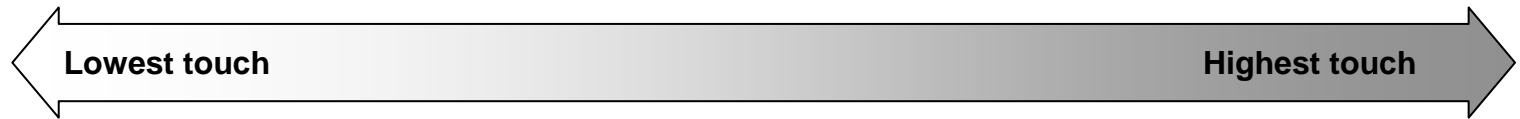
THE 4 CHALLENGES HAVE SIGNIFICANT IMPLICATIONS ACROSS THE DEPARTMENT

	Explanation	Implications
1 Coordination among BUs	<ul style="list-style-type: none"> Because employees tend to focus on meeting unit-specific goals, as opposed to organization-wide goals, there is insufficient coordination between business units 	<ul style="list-style-type: none"> Siloed knowledge makes “operating the system” difficult, e.g.: <ul style="list-style-type: none"> Within DOH, information collected by Traffic Congestion may not be regularly shared with planning Information on a project site collected by DOH may not be adequately shared with Rail Division Best practices may be insufficiently shared across the Department
2 Project accountability	<ul style="list-style-type: none"> Accountability for successful project delivery is often unclear 	<ul style="list-style-type: none"> Project delivery is often slow and inefficient
3 Coordination across geographies	<ul style="list-style-type: none"> There is limited geographical continuity in the planning, design, delivery, and maintenance process 	<ul style="list-style-type: none"> Division managers coordinate some processes (e.g., planning) with staff familiar with their regions; they coordinate others (e.g., roadway) with whomever is available
4 Bureaucracy	<ul style="list-style-type: none"> In some parts of the organization, too many decision-making layers exist between senior, middle, and lower management 	<ul style="list-style-type: none"> Decision-making processes can be extended and inefficient, reducing the Department’s productivity Unit heads are often given limited independent decision-making power

A SPECTRUM OF OPTIONS EXIST TO OVERCOME EACH CHALLENGE



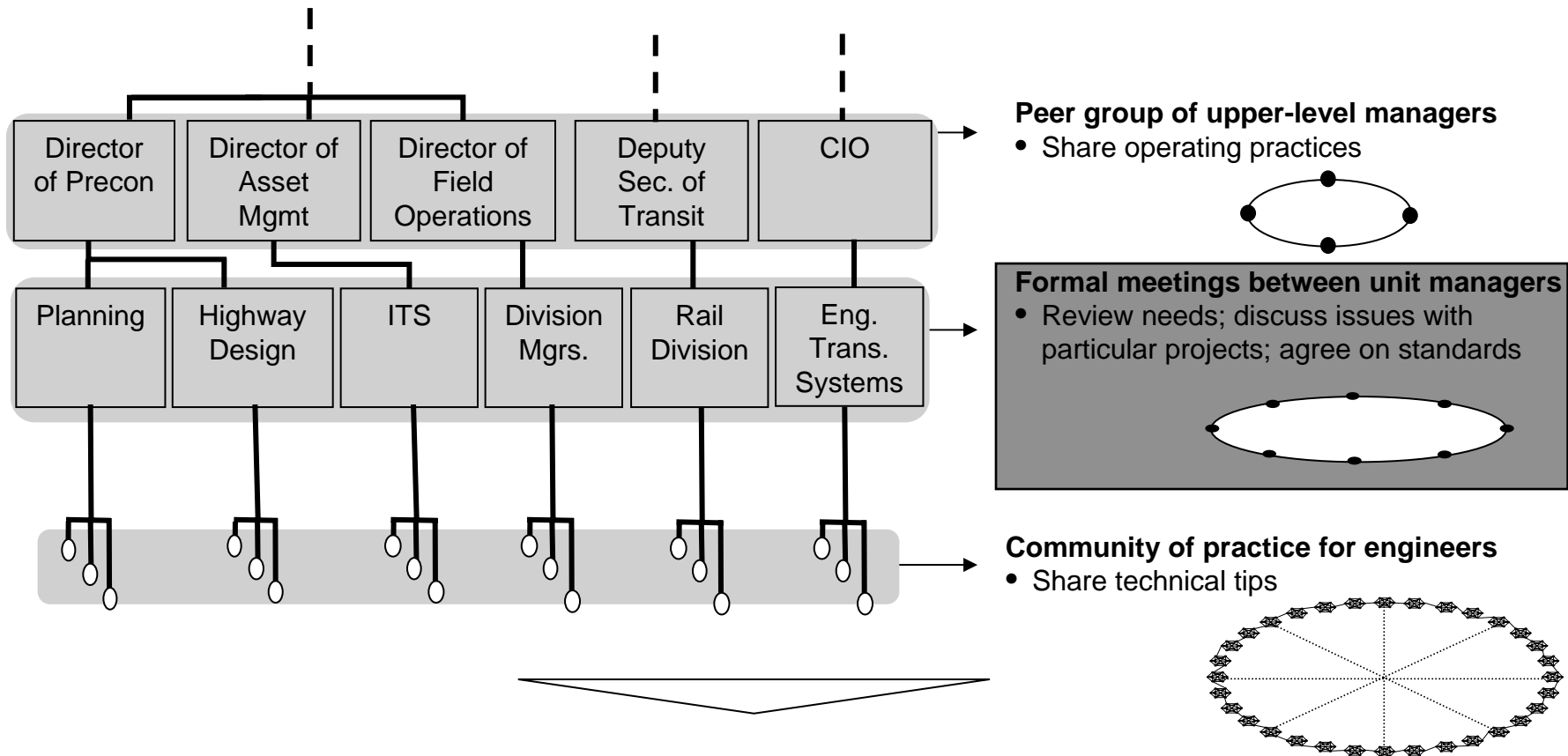
1 COORDINATION AMONG BUSINESS UNITS



Option	Create wider and more formal linkages within DOH, and between DOH and other branches	Centralize project coordination in Chief Engineer's Office	Completely reorganize NCDOT around functions and processes
Description	Arrange more regular meetings between all business units relevant to the project delivery process	Turn Chief Engineer's Office into a "control center" for project coordination, enforcing links within DOH and between DOH and other branches	Draft a new organizational chart for NCDOT based on process flows (<i>how</i> things get done, not just <i>who</i> gets things done)
Pros	<ul style="list-style-type: none"> • Allows NCDOT to better "operate the system" • Enables more collaborative decision-making • Allows more employees to take on leadership roles 	<ul style="list-style-type: none"> • Allows NCDOT to better "operate the system" • Creates a hub for project coordination—a "center of excellence" where NCDOT's best engineers can advise other Bus 	<ul style="list-style-type: none"> • Allows NCDOT to fully "operate the system": planning, design, and other processes are viewed in terms of the whole network • Orients NCDOT strongly around efficiency • Centralizes functional expertise
Cons	<ul style="list-style-type: none"> • May provide relatively sporadic coordination between BUs • Meetings can turn into social events if clear objectives are not set beforehand 	<ul style="list-style-type: none"> • Creates potential bottleneck for decision-making in the middle of the organizational structure 	<ul style="list-style-type: none"> • Could create major disruption to the Department's operations • Requires very clear definition of roles and accountabilities from function to function

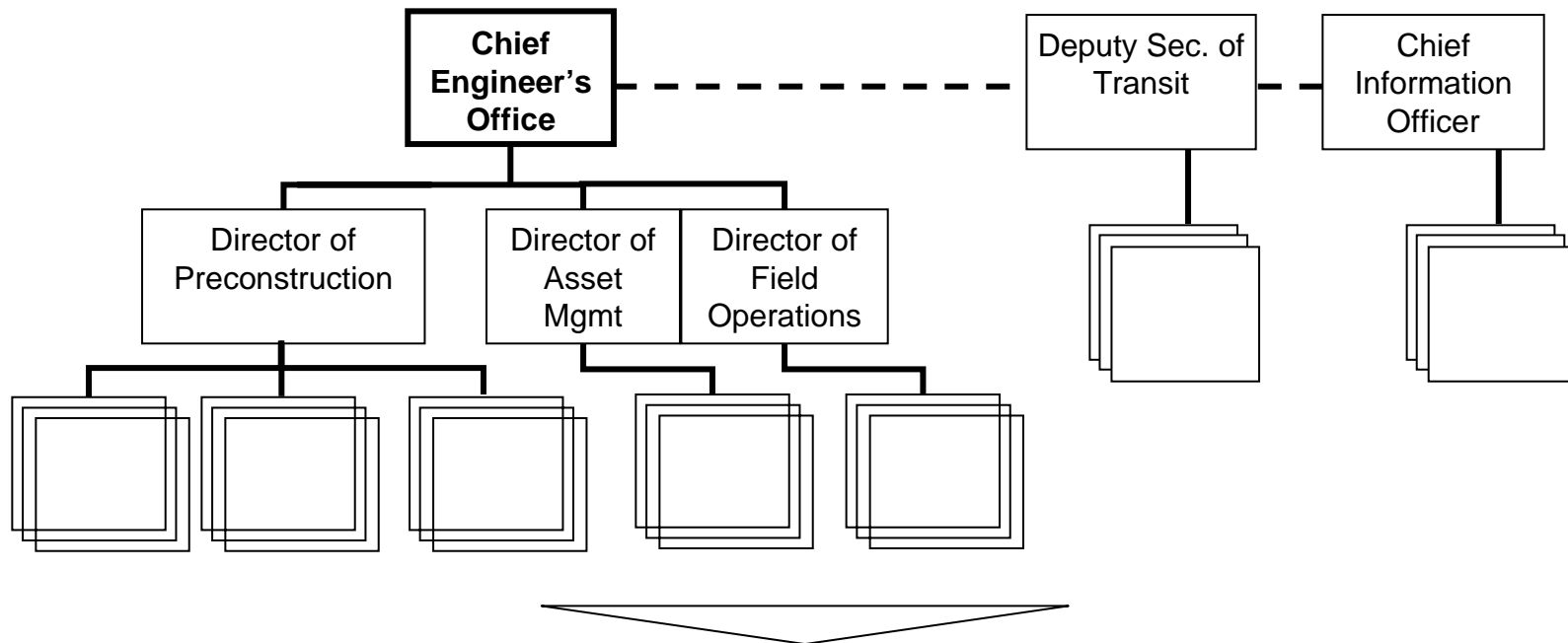
CREATING WIDER AND MORE FORMAL LINKAGES BETWEEN BUSINESS UNITS CAN ENHANCE INFORMATION-SHARING

EXAMPLE



- These linkages provide a **designed set of interactions connecting individuals across organizational silos, helping NCDOT to better “operate the system”**
- The primary goal of these linkages is to increase the volume and value of the exchange of intangibles across the enterprise (i.e., productive interactions), and to:
 - Build and disseminate knowledge
 - Develop and mobilize talent
 - Build collective capabilities that transcend individual members

AN EXPANDED CHIEF ENGINEER'S OFFICE WOULD CENTRALIZE COORDINATION

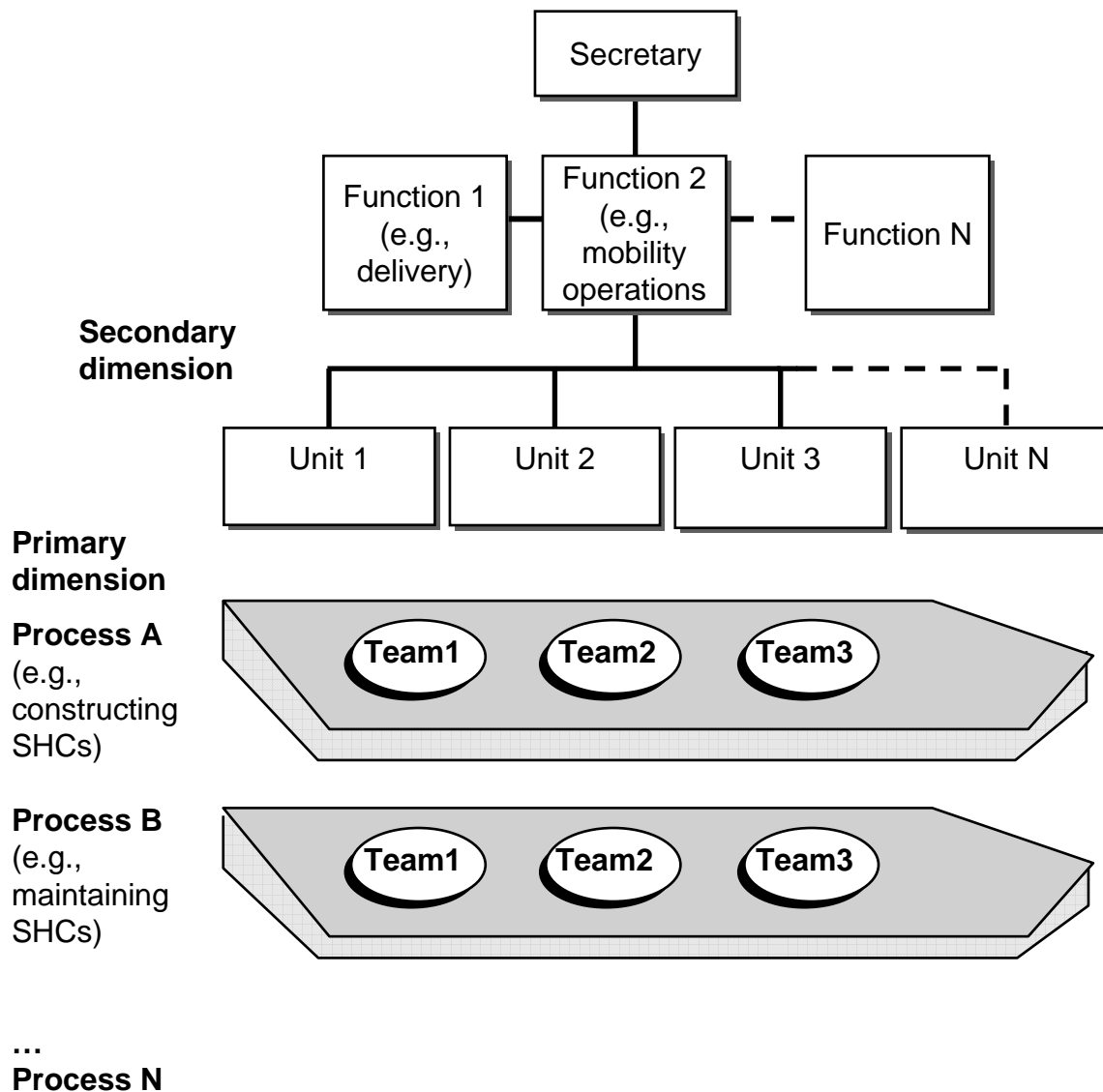


- **Within DOH:**
 - A new reporting line would be drawn between the Chief Engineer's Office and preconstruction
 - An expanded Chief Engineer's Office would directly coordinate strategy between the planning, design, delivery, and maintenance processes
- **Across NCDOT,** the Chief Engineer's office would:
 - Ensure collaboration between DOH and other modes, so expertise is shared across the Department
 - Foster better information-sharing between units in DOH and units relevant to the project delivery process (e.g., engineering traffic systems)

How would expanding the role of the Chief Engineer's Office change the roles immediately above and below it?

PROCESS-BASED ORGANIZATIONAL STRUCTURES CAN ENHANCE OPERATIONAL EFFICIENCY...

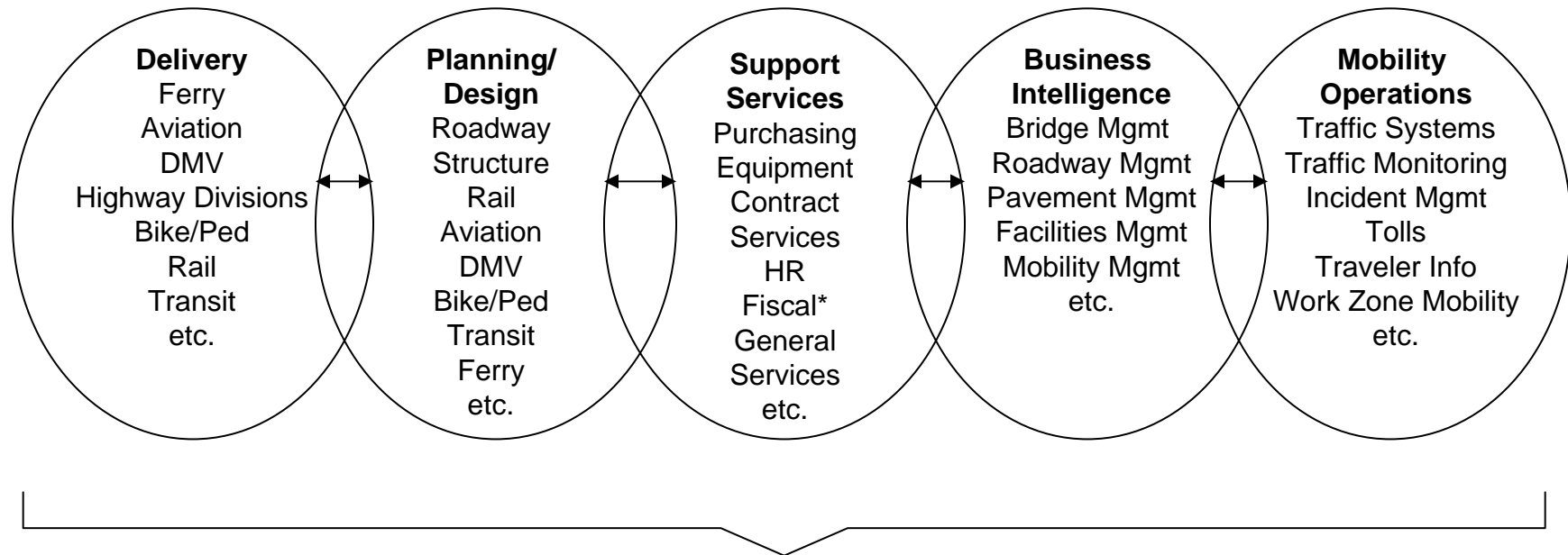
EXAMPLE



Key characteristics

- One form of matrix organized around core processes as primary dimension
- The other dimension typically organized by geography or product
- Core processes identified based on customer needs or key performance objectives
- Different personnel with functional skills form core process team on permanent basis
- Emphasis moved from functional depth to cross-functional skills
- Increased use of IT to integrate across functions, streamline process and meet performance objective

...AND CAPTURE THE 'PROCESS FLOW' CHART THE TEAM CREATED SEVERAL WEEKS AGO



In the team's "process flow" chart, NCDOT would be:

- **Primarily** organized by *how things get done*
- **Secondarily** organized by *who is responsible for doing it*

* This function may fall outside the control of the group directly responsible for the plan to ensure proper checks and balances within the organization

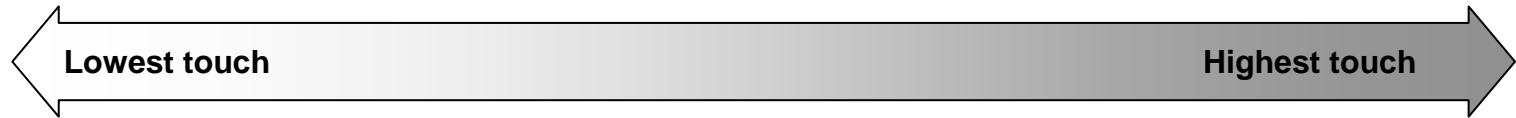
2 PROJECT ACCOUNTABILITY



Option	Designate single project management teams with end-to-end accountability for a project's success
Description	At the beginning of a project's planning phases, a team of three people, from planning, design, and delivery, are placed in charge of overseeing every aspect of the project's progress until delivery is complete
Pros	<ul style="list-style-type: none">• Creates single-point accountability for the successful planning, design, and delivery of projects
Cons	<ul style="list-style-type: none">• May require adding capacity to certain units, as employees focus on single projects for extended periods

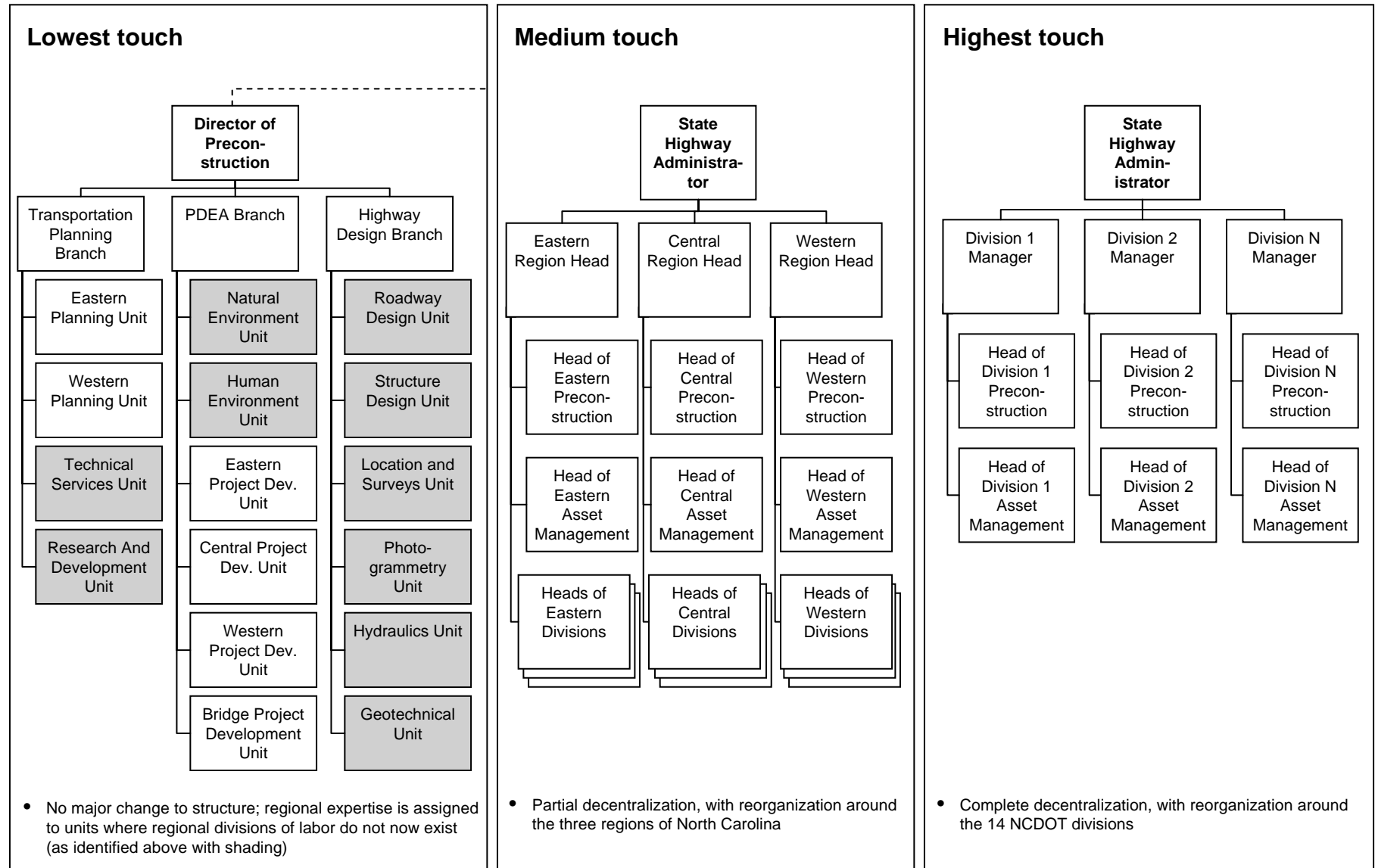
Other options being developed as part of the pilot delivery process

3 COORDINATION ACROSS GEOGRAPHIES




Option	Assign employees in preconstruction and asset management to develop expertise on specific regions	Organize the entire delivery process, beginning to end, around North Carolina's 3 regions	Decentralize preconstruction and asset management units and have them report to the 14 division heads
Description	Employees in each preconstruction and asset management unit are required to develop an expertise in one of the 3 regions of the state	<ul style="list-style-type: none"> • Divide precon and asset mgmt into eastern, central, and western branches • Group divisions by region • Create three new regional heads—replacing the directors of precon, asset mgmt, and field ops—and make them responsible for all planning, design, delivery, and maintenance activities in their respective regions 	<ul style="list-style-type: none"> • All preconstruction and asset management branches are divided into 14 divisional units • These units report to each of the 14 division heads, who are responsible for all planning, design, delivery, and maintenance activities in their respective regions
Pros	<ul style="list-style-type: none"> • Improves geographic continuity in the project delivery process 	<ul style="list-style-type: none"> • Formalizes geographic continuity in the project delivery process 	<ul style="list-style-type: none"> • Formalizes geographic continuity in the project delivery process
Cons	<ul style="list-style-type: none"> • Creates a potential imbalance in workload, e.g. if the eastern region has a spike in projects and the western region has a lull 	<ul style="list-style-type: none"> • May create significant operational disruptions • May be better to keep expertise centralized 	<ul style="list-style-type: none"> • May create significant operational and cultural disruptions • May be better to keep expertise centralized

WHAT EACH OF THE THREE GEOGRAPHICAL OPTIONS MIGHT LOOK LIKE



4 BUREAUCRACY

			
Option	Reduce the length of decision-making chains at NCDOT	Clearly define decision-making rights for managers	Change NCDOT's culture to give managers wide decision-making leeway
Description	Use decision grids (a tool developed by McKinsey) to better clarify decision-making roles at NCDOT and potentially reduce the number of people involved in decision-making	Develop guidelines for decisions that do not need upper-management approval (i.e., all purchases under \$500 do not need approval)	Allow managers to make decisions on a wide range of issues, from small purchases to hiring decisions to new ways of tackling problems
Pros	<ul style="list-style-type: none"> Reducing the number of hands involved in decision-making allows conclusions to be reached faster 	<ul style="list-style-type: none"> Empowers managers with more decision-making authority than they currently have 	<ul style="list-style-type: none"> Builds trust throughout the organization Encourages innovation Rewards risk-taking
Cons	<ul style="list-style-type: none"> Can be difficult and time-consuming to identify every decision-making process in the organization Change may be incremental in nature 	<ul style="list-style-type: none"> "Halfway" cultural change Drawing boundaries around which decisions can and cannot be made by managers may seem authoritative 	<ul style="list-style-type: none"> Dilutes reporting relationships Upper-level managers lose some control

DECISION GRIDS ARE DESIGN AND DIAGNOSTIC TOOLS

Decision grids are tools that reveal how particular decisions get made in the organization and develop recommendations to improve decision-making; they can be used

As a design tool to

- Design more efficient decision-making processes and create sound routines for making important decisions
- Define implications of structure for processes, highlighting areas that need fixing
- Define operating relationships
- Define managerial accountability and formalize informal processes to keep it
- Fill out real job descriptions

As a diagnostic tool to

- Analyze aspects of informal organization, distribution of power, social networks and leadership
 - Create a common understanding of decision making processes
 - Evaluate efficiency and effectiveness of decision making processes
 - Understand allocation of accountabilities and responsibilities and measure its fairness
 - Identify blockers and enablers of decision-making
 - Define management information needs and information flows within the organization
-

EXAMPLE

Divisional manager
Division's head of HR
Division's CFO
Finance and planning
Manufacturing and engineering
Controlling
Purchasing
Internal communications
Human resources
Training and development
Legal
Public relations
Government affairs
Chief purchasing officer
Chief marketing officer
Chief personnel officer
Corporate Counsel
CFO
COO
CEO

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WORKSHOPS CAN ELICIT UNIT-LEVEL INPUT ON AREAS WHERE DECISION RIGHTS SHOULD BE DEFINED

EXAMPLE

Objectives	Workshop format
<p>Today's brainstorming session has a dual purpose</p> <div><div>1</div><div>Generate an initial list of decision rights issues for each BU/Function</div></div> <div><div>2</div><div>Make the team aware of a focus group format that can be used going forward</div></div>	<div><div>Description</div><div><div>Goal</div><div>• Generate a list of decision rights issues for Business Units, Functions or entities (e.g., ExCom)</div></div><div><div>Process</div><div><div>• For each BU/Function/entity there will be a brainstorming session where<ul style="list-style-type: none">– Each team member will generate a list of decision rights issues with his/her group and assess its frequency and business importance– Decision rights issues will be written on post-it notes and classified for each BU/Function/entity by business and cultural importance• Then there will be a clarifying session where<ul style="list-style-type: none">– Decision rights (or handwriting) that are unclear will be discussed– Overall importance levels will be agreed upon</div><div><div>Timing</div><div><div>• For each BU/Function/entity<ul style="list-style-type: none">– 5 min generation time– 5 min clarification time</div></div></div></div></div></div>

GO-FORWARD DECISIONS FOR POTENTIAL ORGANIZATION CHANGES

Organization challenges and spectrum
of possible solutions

Preferred Option(s)

Next Steps

1. Coordination across business units

- Lowest touch: Functional linkages
- Medium touch: Strengthened role of the Chief Engineering Officer
- Highest touch: Reorganization around process flows

2. Project accountability: *Options being developed by the delivery pilots workstream*

3. Coordination across geographies

- Lowest touch: Assign regional expertise to employees in project planning, design, and maintenance
- Medium touch: Organize entire project delivery process, from beginning to end, around 3 regions
- Highest touch: Decentralize project planning, design, delivery, and maintenance units and reorganize around 14 divisions

4. Bureaucracy

- Lowest touch: Reduce the length of decision-making chains
- Medium touch: Define decision-rights
- Highest touch: Culture shift

CONFIDENTIAL

Building Efficiencies and Productivity at NCDOT: TMT Training



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AGENDA

- | | |
|--|----------------|
| • Introduction to the Building Efficiencies and Productivity (BEP) process | 1:00 – 1:15 pm |
| • Step 1: Build the MEA Database | 1:15 – 2:30 pm |
| – Branch/unit baseline structure | |
| – Missions, End Products and Activities | |
| – Allocating Costs to MEAs | |
| • Step 2: Generate and Evaluate Ideas | 2:30 – 3:30 pm |
| – Generating Ideas | |
| – Prioritizing and Evaluating Ideas | |
| • Steps 3 & 4: Implementation Planning and Execution | 3:30 – 3:35 pm |
| • Communications | 3:35 – 4:00 pm |

BUILDING EFFICIENCIES AND PRODUCTIVITY (BEP) SHOULD BE A DISCIPLINED, STRUCTURED PROCESS



What the BEP should be . . .

- Finding more productive ways to perform necessary activities
- Questioning what, where, why, and how products and services should be delivered
- Potentially eliminating nonvalued activities and end products



What the BEP should not be. . .

- Making people work harder
- Getting the same workload done with fewer people
- Reducing the quality of the work to the detriment of the business

The focus of the process is on activities and end products, not people

Achieve lasting productivity improvements

Embed continuous improvement and willingness to challenge status quo

WHEN IS A BEP EFFECTIVE?

Participative/ bottom-up

The process provides department managers, in concert with their employees, the opportunity to fundamentally change the way work is done

Creative

The process challenges units to generate ideas to increase efficiency and productivity, which forces unit leaders to “think outside of the box” and seek innovative solutions

Collaborative

A shared decision-making process is the hallmark of this process. All decisions are reviewed by the unit leader, the PMO, and senior leadership for approval, balancing the need for near-term efficiencies gains against the long-term strategy of the Department

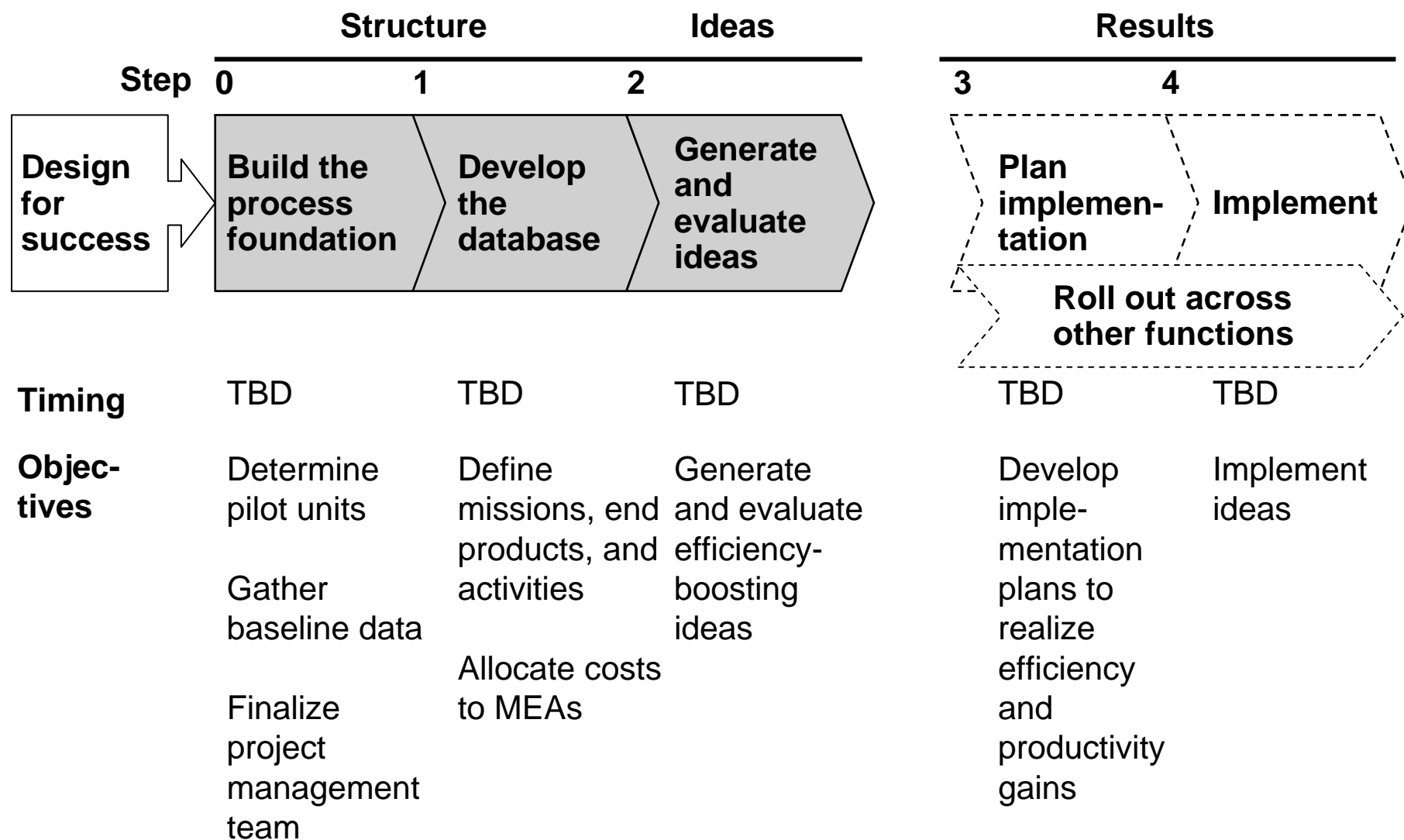
Improves cost consciousness

Improves planning, budgeting and evaluative skills, while reinforcing cost control and a value-added mindset

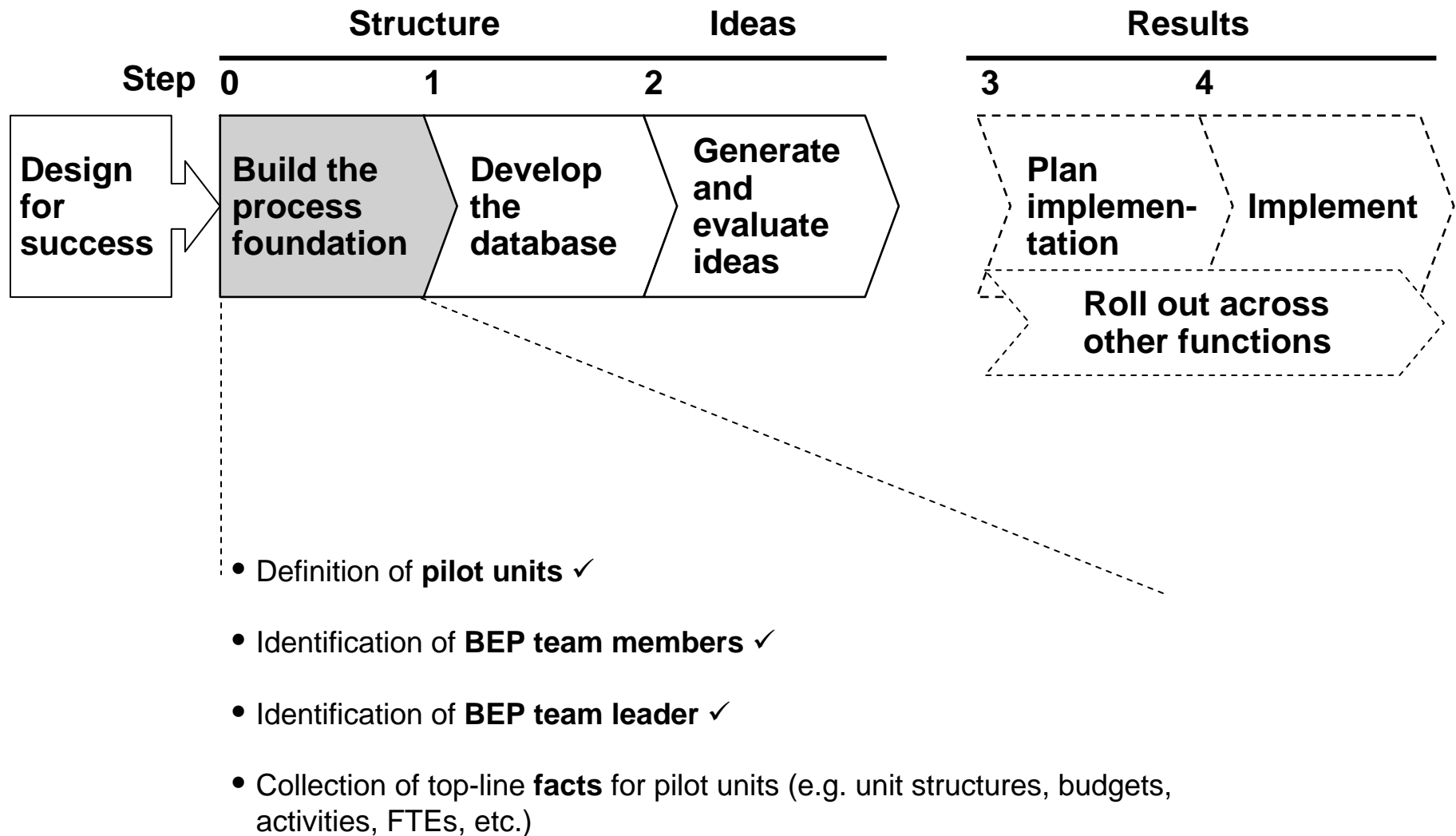
Provides lasting productivity gains

Changes—and sometimes eliminates—activities, resulting in an organization correctly configured for the remaining workload

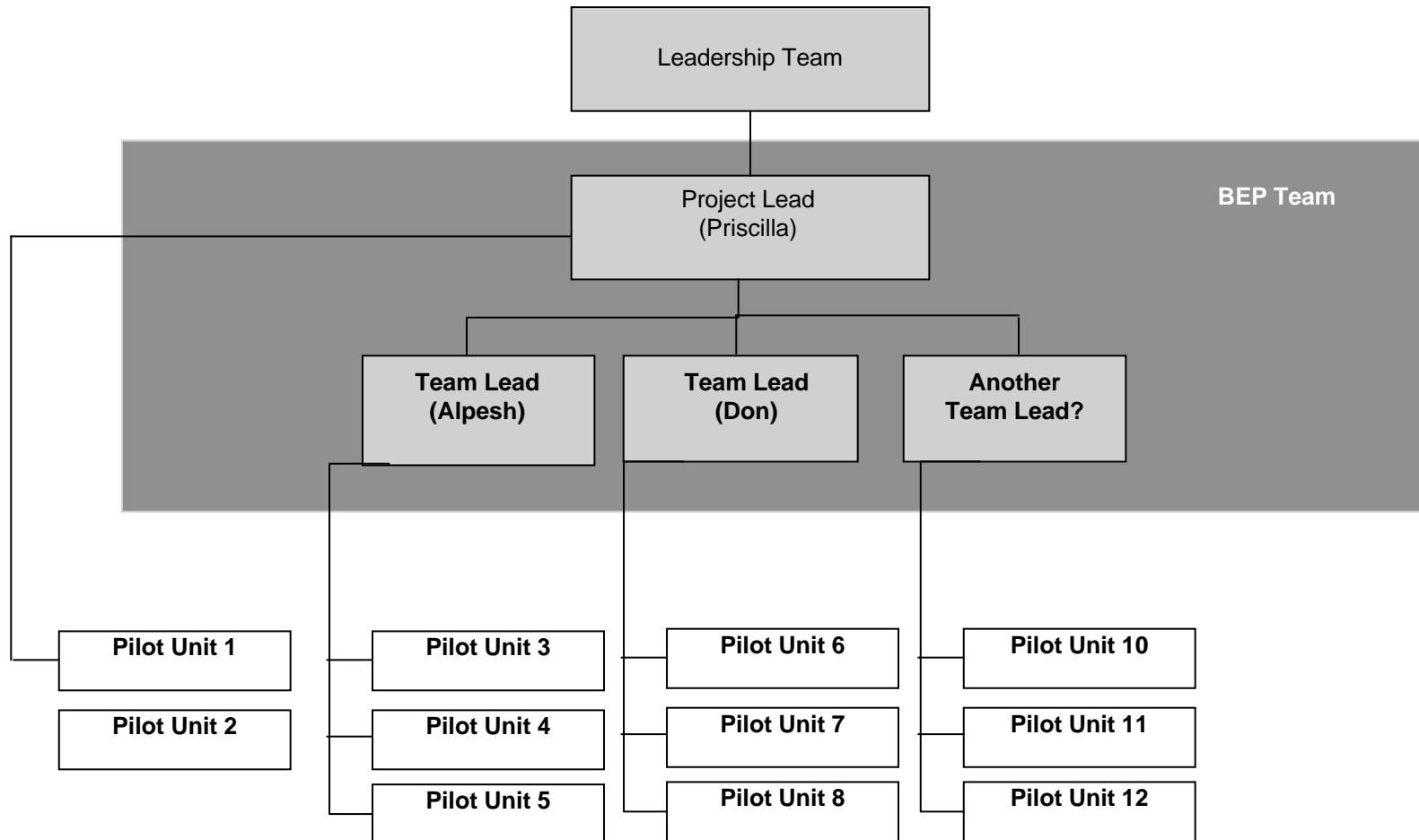
THE BEP SHOULD FOLLOW A RIGOROUS APPROACH AND TIMELINE



STEP 0: BUILD THE PROCESS FOUNDATION



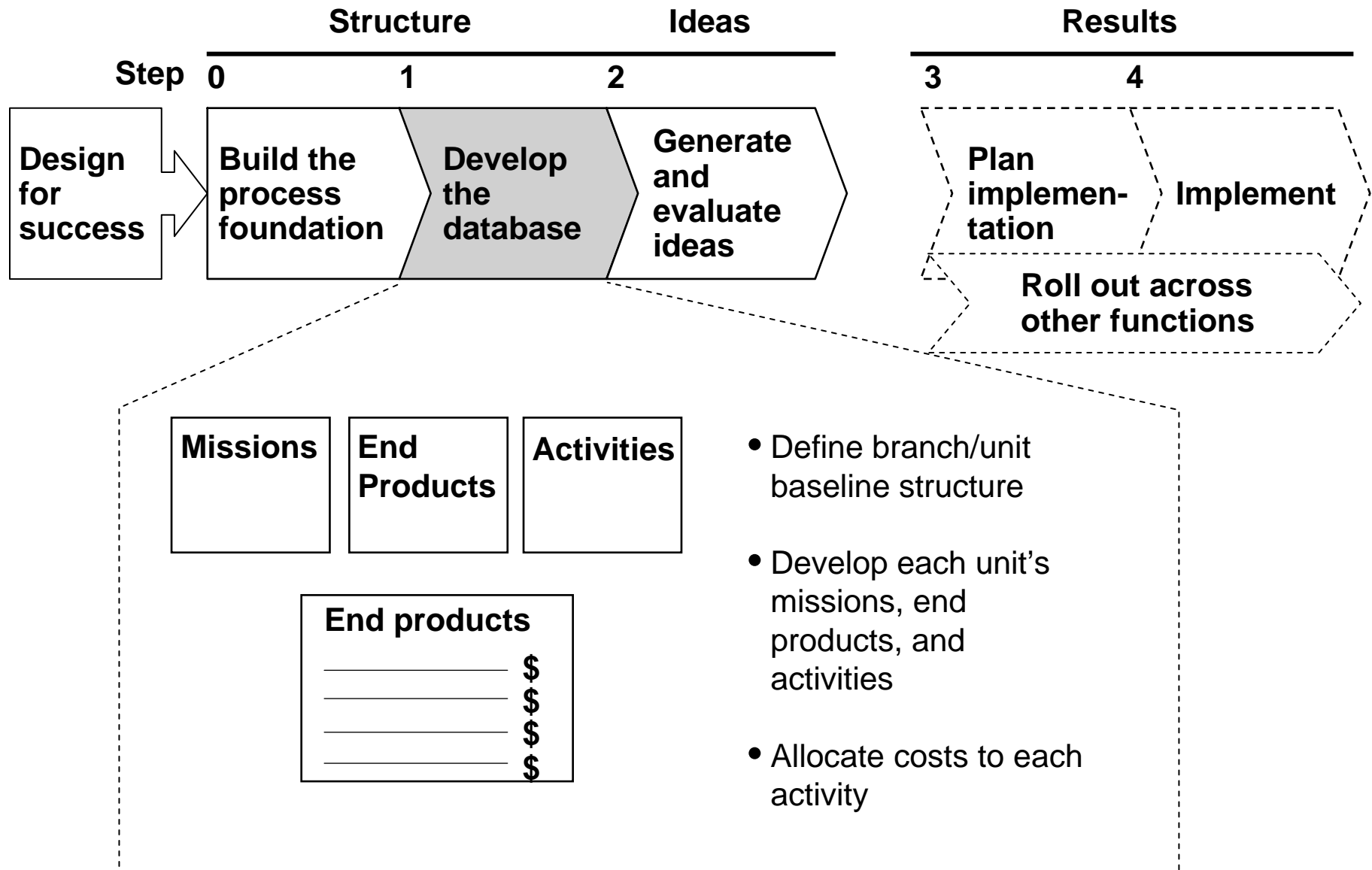
BEP TEAM STRUCTURE



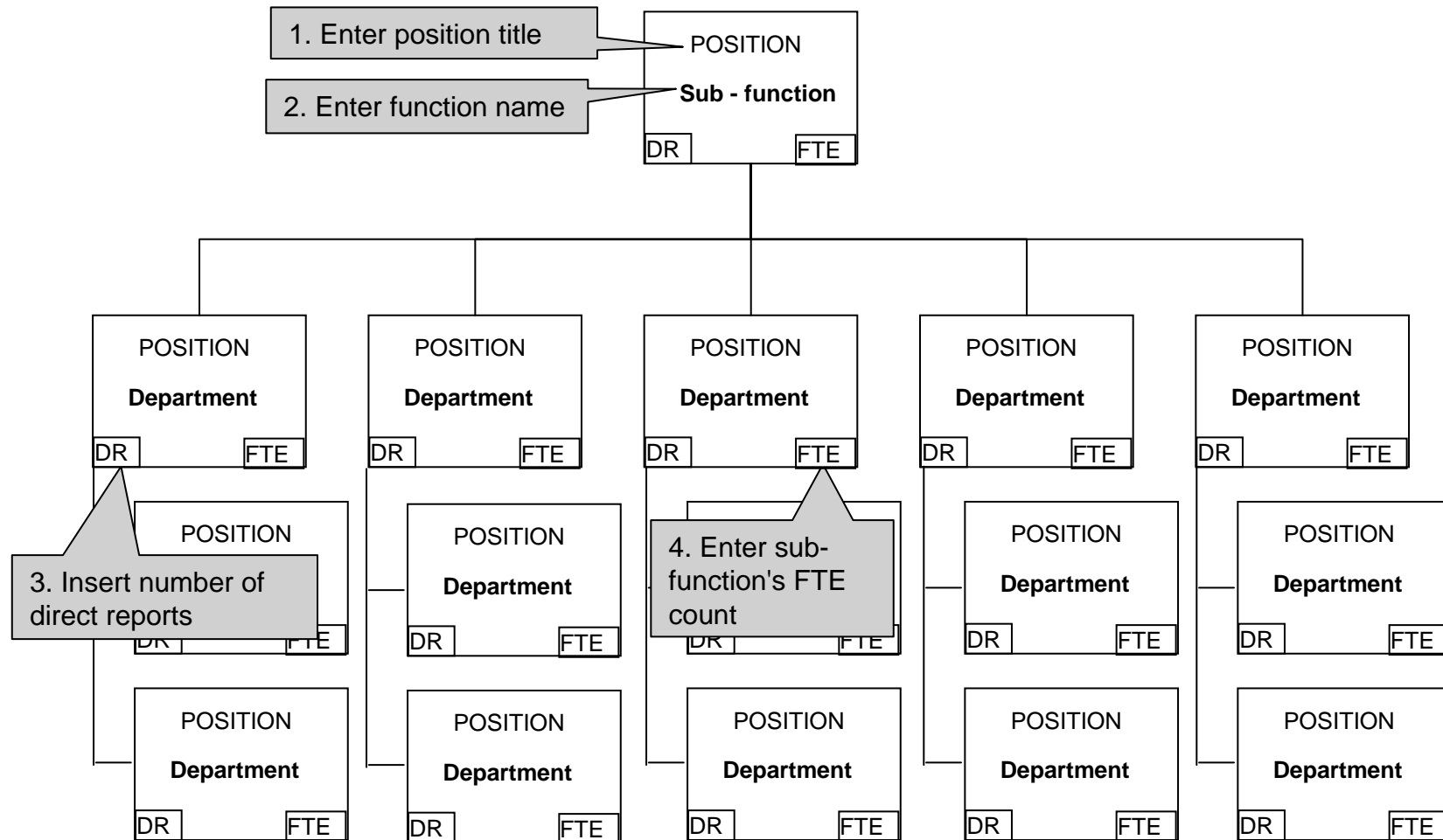
AGENDA

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STEP 1: DEVELOP THE DATABASE



DEFINING THE BRANCH/UNIT BASELINE STRUCTURE



DEFINING THE BRANCH/UNIT BASELINE STRUCTURE



		Employees		Contract		Total
#	Position:	Count	FTEs	Count	FTEs	FTEs
1	Position 1	2	1	2	1	2
2	Position 2	2	1	2	1	2
3	Position 3	2	1	2	1	2
4	Position 4	2	1	2	1	2
5	Position 5	1	1	1	1	2
6	Position 6	1	1	1	1	2
7	Position 7	1	1	1	1	2
8	Position 8	1	1	1	1	2
9	Position 9	1	1	1	1	2
10	Position 10	1	1	1	1	2
11	Position 11	1	1	1	1	2
12	Position 12	1	1	1	1	2
13	Position 13	1	1	1	1	2
14	Position 14	1	1	1	1	2
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
Total:		18	14	18	14	28

2. Enter employee count for each position

1. Enter position title

3. Enter FTE count for each position

4. Enter contract/temp count for each position

5. Enter contract/temp FTE for each position

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MISSIONS, END PRODUCTS, AND ACTIVITIES (MEAs) DESCRIBE A UNIT'S WORK



	Mission	End product	Activity
Definition	<ul style="list-style-type: none"> • Why? • A mission answers the question "why does the business unit exist?" 	<ul style="list-style-type: none"> • What and how often? • An end product is either a tangible or intangible product or service that fulfills the unit's mission 	<ul style="list-style-type: none"> • How? • An activity is a step or action taken toward the production of specific end-product or service
Example	<ul style="list-style-type: none"> • To provide adequate training to new hires 	<ul style="list-style-type: none"> • New employee training guide 	<ul style="list-style-type: none"> • Interview supervisors to understand new-hire training needs
Guidelines	<ul style="list-style-type: none"> • Typically, 3-5 per business unit • Missions organize the activities into logical groupings 	<ul style="list-style-type: none"> • Typically, 1-5 end products per mission • End products often are delivered to other business units 	<ul style="list-style-type: none"> • Typically, 3-10 activities per end product • Activities describe the work required to produce the end products

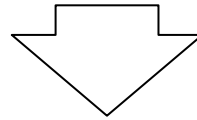
Overall guidelines

- Keep in mind that the purpose of developing the MEA database is to facilitate idea generation and analysis
- Seek a level of detail that will be meaningful in the idea-generation phase
- Recognize that iterations are normally required to develop the MEAs—it is often useful to brainstorm and capture MEAs on paper first and then enter into the database

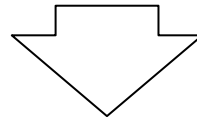
DEVELOPING MEAs IS A COLLABORATIVE PROCESS, DONE WITH UNIT LEADERS AND UNIT MEMBERS



- Unit leader:**
- List unit's missions (and activities, if possible); involve team leaders or other unit members as needed



- Unit members:**
- Categorize own end products with time allocations by mission
 - Add additional end products that do not fit under given missions



- Unit members:**
- Reorganize end products and use activities as subgroupings under each mission
 - Group allocations of different unit members against the same end product
 - Create additional missions to incorporate end products that do not fit in original list of missions

GUIDELINES FOR DEVELOPING UNIT MISSIONS



- | | |
|------------|---|
| Definition | <ul style="list-style-type: none">• Missions are the unit's basic purposes• They answer the question, "Why does the unit exist?" |
| Purpose | <ul style="list-style-type: none">• Frame end products and activities of the unit into organized, manageable groupings• Tie activities to the basic purposes(s) of the division |
| Guidelines | <ul style="list-style-type: none">• Do not use general verbs like "manage" and "administer"• Use infinitives for all mission statements – e.g., "to establish," "to send"• Typically, there are 3-5 missions per division |
| Example | <ul style="list-style-type: none">• "To provide adequate training to new hires" |

GUIDELINES FOR DEVELOPING UNIT MISSIONS



Common pitfall	Examples	"Acid tests"
Mission is too generic	<ul style="list-style-type: none"> • "Attend meetings and conferences" • "Maintain databases" 	<ul style="list-style-type: none"> • Is the mission consistent with the purpose of your business unit? • Would you feel comfortable telling the CEO that your business unit exists to perform that mission?
Mission is unclear <ul style="list-style-type: none"> • Too wordy • Too technical 	<ul style="list-style-type: none"> • "To assess and identify optimum methods of accurately quantifying ..." • "To produce formatted text output with optimal generation techniques" 	<ul style="list-style-type: none"> • Is there more than one verb? If so, how can they be combined? • Are there objectives that can be eliminated? • Could a senior manager, who is not intimately familiar with your organization, understand the mission?
Mission is really the end product	<ul style="list-style-type: none"> • "Provide telephones " 	<ul style="list-style-type: none"> • Does more than one end-product exist for the mission? Is the mission part of a broader mission?
Mission limits ideas by being overly specific	<ul style="list-style-type: none"> • "Provide for microwave communications" 	<ul style="list-style-type: none"> • Are ideas excluded based on the wording of the mission?

GUIDELINES FOR DEVELOPING END PRODUCTS



Definition

- End products are the tangible or intangible products or services (hard copy, advice, etc.) created by the unit
- They answer the questions what does the unit produce and how often does it produce it

Purpose

- Provide the focus for generating efficiency ideas

Guidelines

- Nouns should be used to describe end products
- Generally, end products flow outside the unit to support other unit' missions, although...
- ...Internal end products may result from intermediate steps in a process
- An end product is effectively the sum total of all the activities contributing to that end product

Example

- "New employee training guide"

GUIDELINES FOR DEVELOPING END PRODUCTS



Common pitfall	Examples	"Acid tests"
End product is really an activity	<ul style="list-style-type: none"> • "Attend meetings" 	<ul style="list-style-type: none"> • Is the end product a noun? If not, it may be an activity
End product is part of other end products	<ul style="list-style-type: none"> • "Advice" 	<ul style="list-style-type: none"> • Is this end product used by others in your area to produce other end products? If so, it is an activity that is a part of these other end products
End product is not useful for idea generation	<ul style="list-style-type: none"> • "Reports" • "Meetings" 	<ul style="list-style-type: none"> • Can you think of actionable ideas that will be generated by asking the question, "How can we produce (end-product) better?"

GUIDELINES FOR DEVELOPING ACTIVITIES



- | | |
|------------|--|
| Definition | <ul style="list-style-type: none">• An activity is a step or action taken toward the production of specific end product or service• They answer the question, “How do we create end products?” |
| Purpose | <ul style="list-style-type: none">• Provide the focus for generating efficiency ideas |
| Guidelines | <ul style="list-style-type: none">• Verbs should be used to introduce all activity descriptions• Activities should logically support an end product• Focus on activities that take at least 5% of an FTE• Is not a one-time event• Activities must be mutually exclusive and collectively exhaustive |
| Example | <ul style="list-style-type: none">• "Interview supervisors to understand new-hire training needs" |

GUIDELINES FOR DEVELOPING ACTIVITIES



Common pitfall	Examples	"Acid tests"
Activity is too specific	<ul style="list-style-type: none">• "Obtain report from filing cabinet"• "Make a list of key customers"	<ul style="list-style-type: none">• Could the unit realistically brainstorm about this level of activity/end products?
Activity is too general	<ul style="list-style-type: none">• "Assist business unit with analysis"	<ul style="list-style-type: none">• Will valuable ideas for saving result from further division of the activities?
Activity is really an end product	<ul style="list-style-type: none">• "Create monthly employee magazine"• "Develop quarterly sales forecasts"	<ul style="list-style-type: none">• Do the results of the activity flow outside the unit or serve multiple end-users or customers?• Can several end products result from the activity?

DEVELOPING MEAs



MISSION	END PRODUCTS	ACTIVITIES
mission 1	end product 1.1	[ADM] Attend Administrative Meetings
mission 2	end product 1.2	[P&P] Develop/Implement Strategy
mission 3	end product 1.3	[IT] Administer Systems
	end product 1.4	[IT] Define Business/CARD Requirements
	end product 2.1	[IT] Develop Operational IT Systems
	end product 2.2	[IT] Develop Reporting System
	end product 2.3	[IT] Escalate System Issues
	end product 2.4	[IT] Maintain Information Repository
	end product 3.1	[IT] Troubleshoot/Resolve System Issues
	end product 3.2	[S] Code and Approve Vendor Payments
	end product 3.3	[S] Develop Reports
	end product 3.4	Perform Month-End Close/Accruals

1. Complete list of missions for the unit. The missions describe why the business unit exists and typically each business unit has 3-5 missions (e.g. "To provide adequate training to new hires")

2. Describe the end products associated with each of the missions. An end products is a tangible or intangible product or service that results from a set of activities (e.g. "New employee training guide")

3. Describe the activities performed by the unit. Activities are steps or actions taken towards the production of end products or services (e.g. "Interview supervisors to understand new hire training needs")

- Filling in the MEA Data list is an iterative process
- MEAs can be added to the list at any time during the process

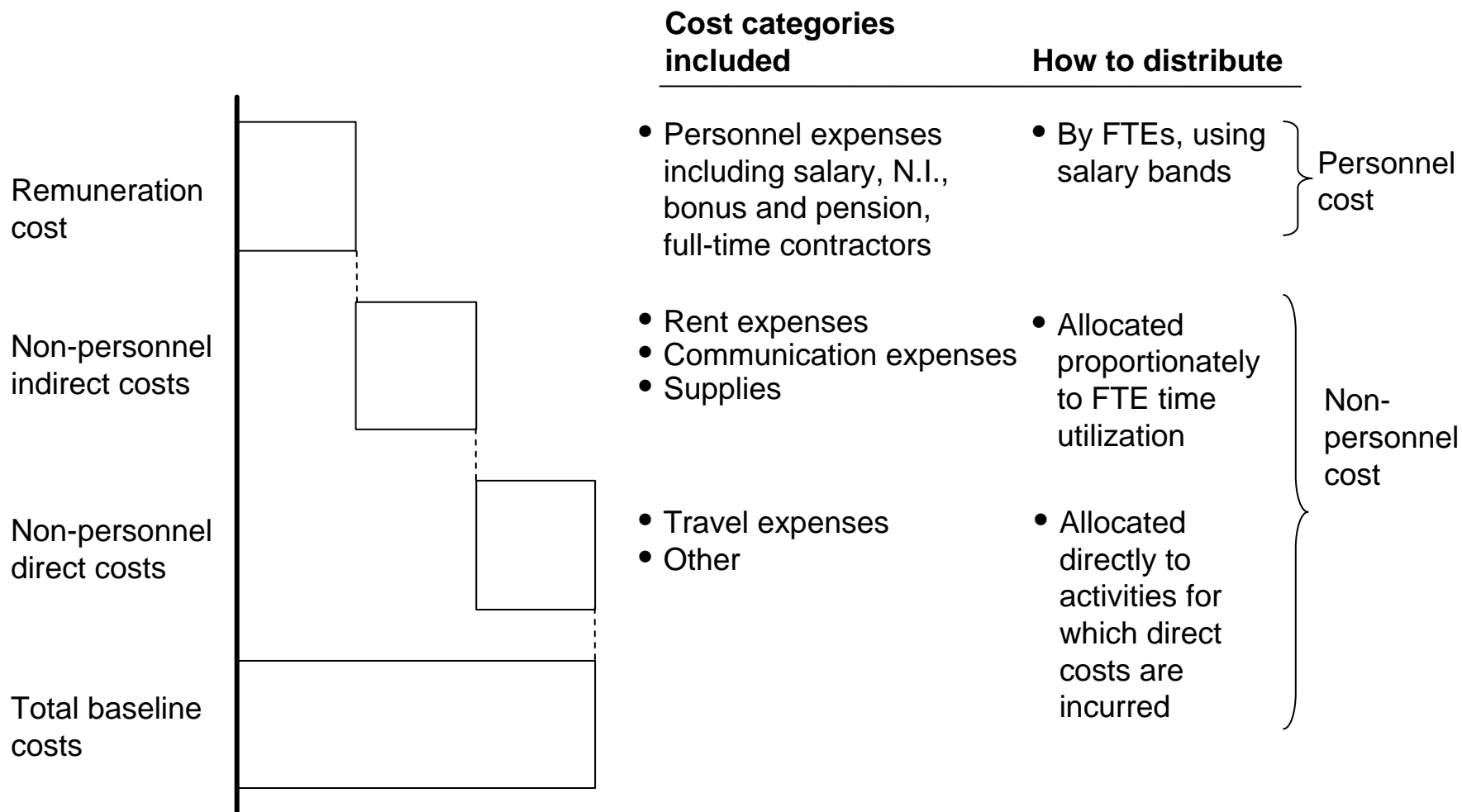
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ALLOCATING COSTS TO MEAs



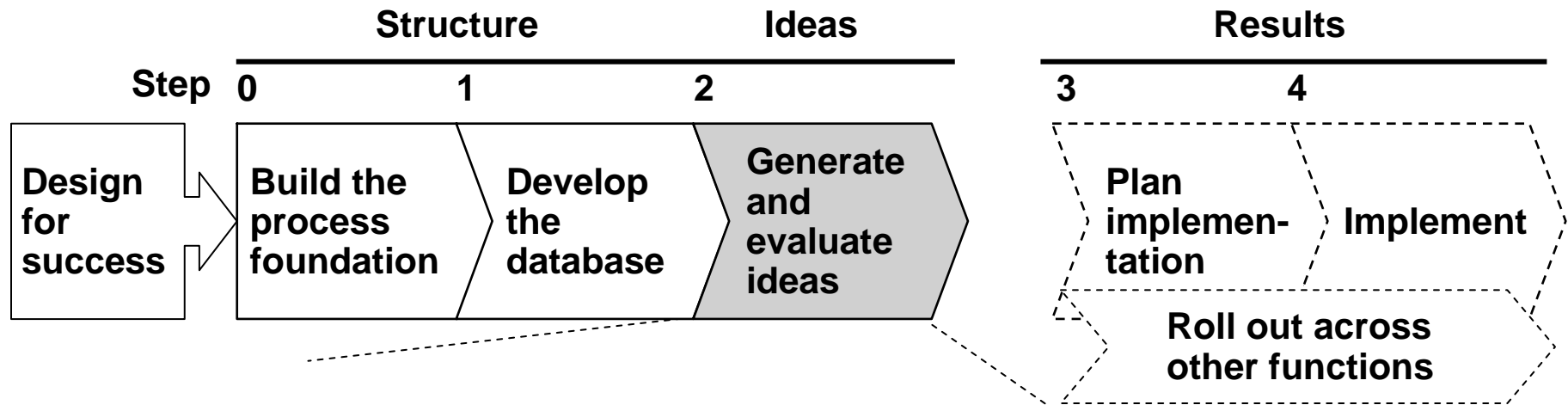
Three categories are used to allocate costs across MEAs



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STEP 2: GENERATE AND EVALUATE IDEAS



Brainstorm ideas for improved efficiency



Refine and evaluate each idea to determine costs and benefits



Review each idea with key managers and end users

Submit ideas for approval



IDEA GENERATION OBJECTIVES AND TOOLS



Objectives and Expectations

- 50-250 ideas typically expected from a unit after brainstorming
- Ideas will receive an initial prioritization as a part of the brainstorming session

Tools

- Brainstorming workshops
 - Generally 2-3 hours in length
 - Approximately 10 people max per group
 - 3-6 sessions typical per unit (depending on topics to be covered)
- Idea tracking catalogue (electronic templates)
- Risk assessment/prioritization process
- Evaluation templates

IDEAS MUST BE ACTIONABLE



Idea guidelines

- **Simple** – can be summarized in 1-2 sentences (“back of the envelope”)
- **Tangible, concrete, and concise** – not abstract principles, aspirations, and adjectives only
- **Actionable** – indicate clearly who does what and when, with what effect
- **Able to implement within reasonable timeframe** – (e.g., within 6 months)
- **Reasonable payback time** – (e.g., under 2 years)



Right example

- HR publishes “Management Report X” only 2 times a year instead of 4, thus creating savings of \$XXXX



Wrong example

- Create a new interactive IT application that cuts processing time significantly from 2006 onward

SCHEDULE WORKSHOPS



Who should attend the workshops?

- 10 people max
- Choose people
 - From different levels in the organization
 - With different work tasks/ functions
 - From different locations in the organization

How many workshops should we arrange?

- 1-3 unit workshops depending on the business unit size and complexity
- 1-3 cross functional workshops depending relevancy

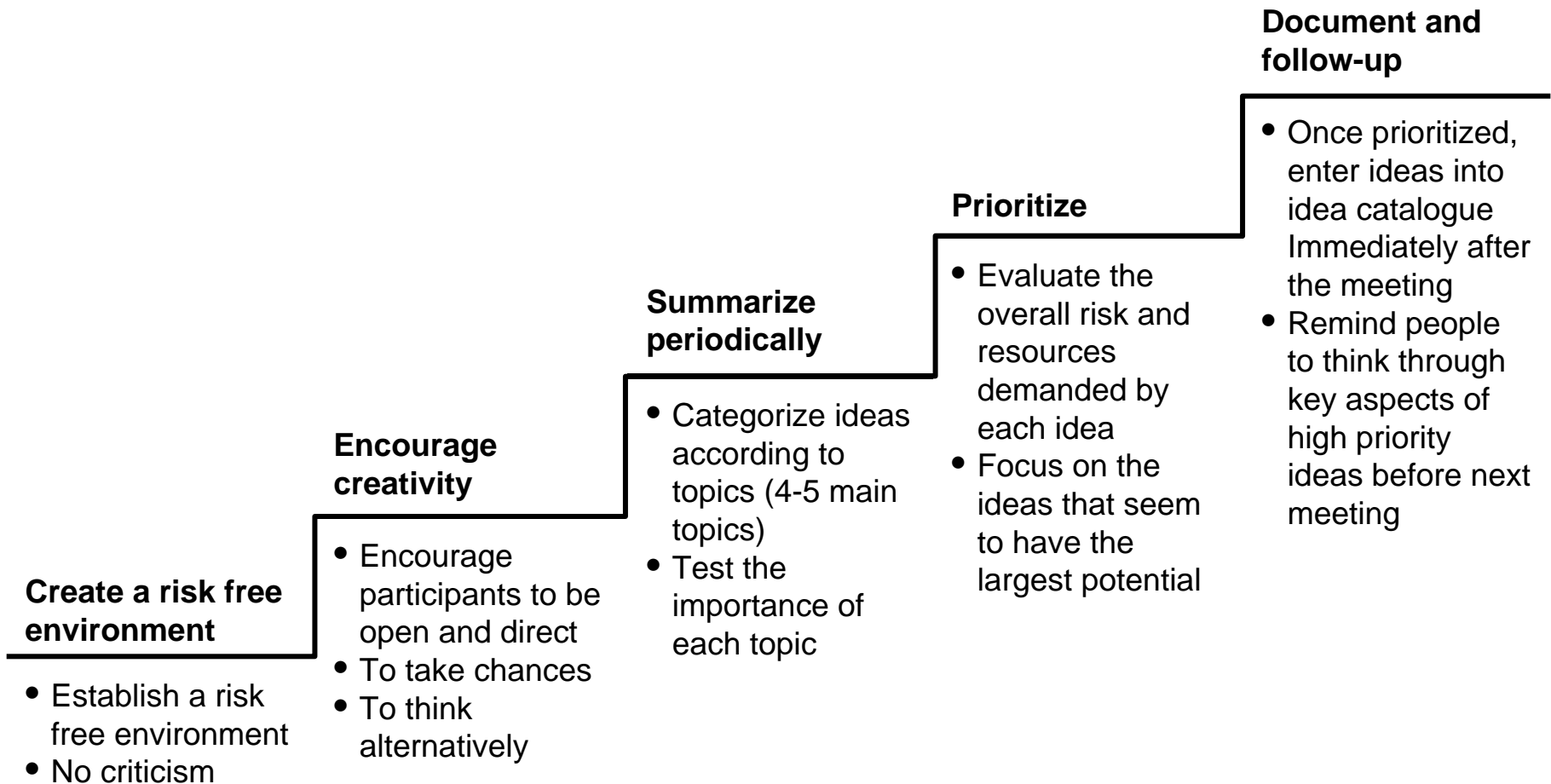
Where should the workshops be arranged?

- If possible, organize location away from working area to minimize disruptions

For how long should the workshops last?

- Target 2-3 hours

RECOMMENDATIONS FOR IDEA GENERATION

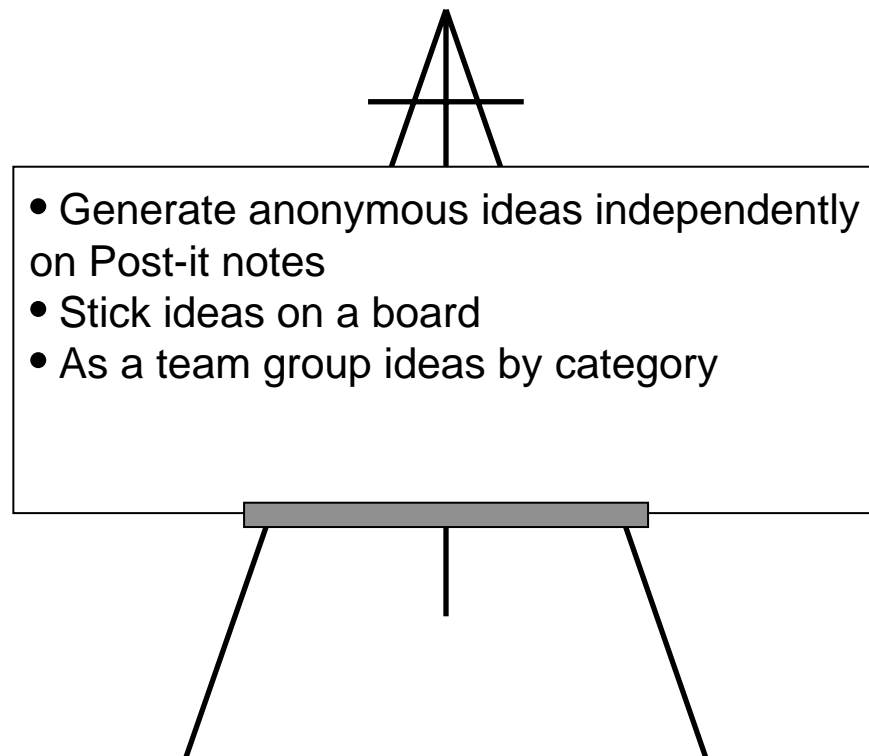


BRAINSTORMING TECHNIQUES: QUESTIONING



- Why do we have to do it that way?
- Why does it take so much effort? Time?
- Is there another group who could do this better?
- What happens if we stop supporting or entirely eliminate that Mission, End Product or Activity?
- Do we need that deliverable?
- Can we change the frequency at which we deliver?
- What does the user/internal customer want from the end-product?
- This end product is so much more expensive than the other one - is it justified?
- How can this be accomplished more efficiently? Can some work phases be skipped or modified?

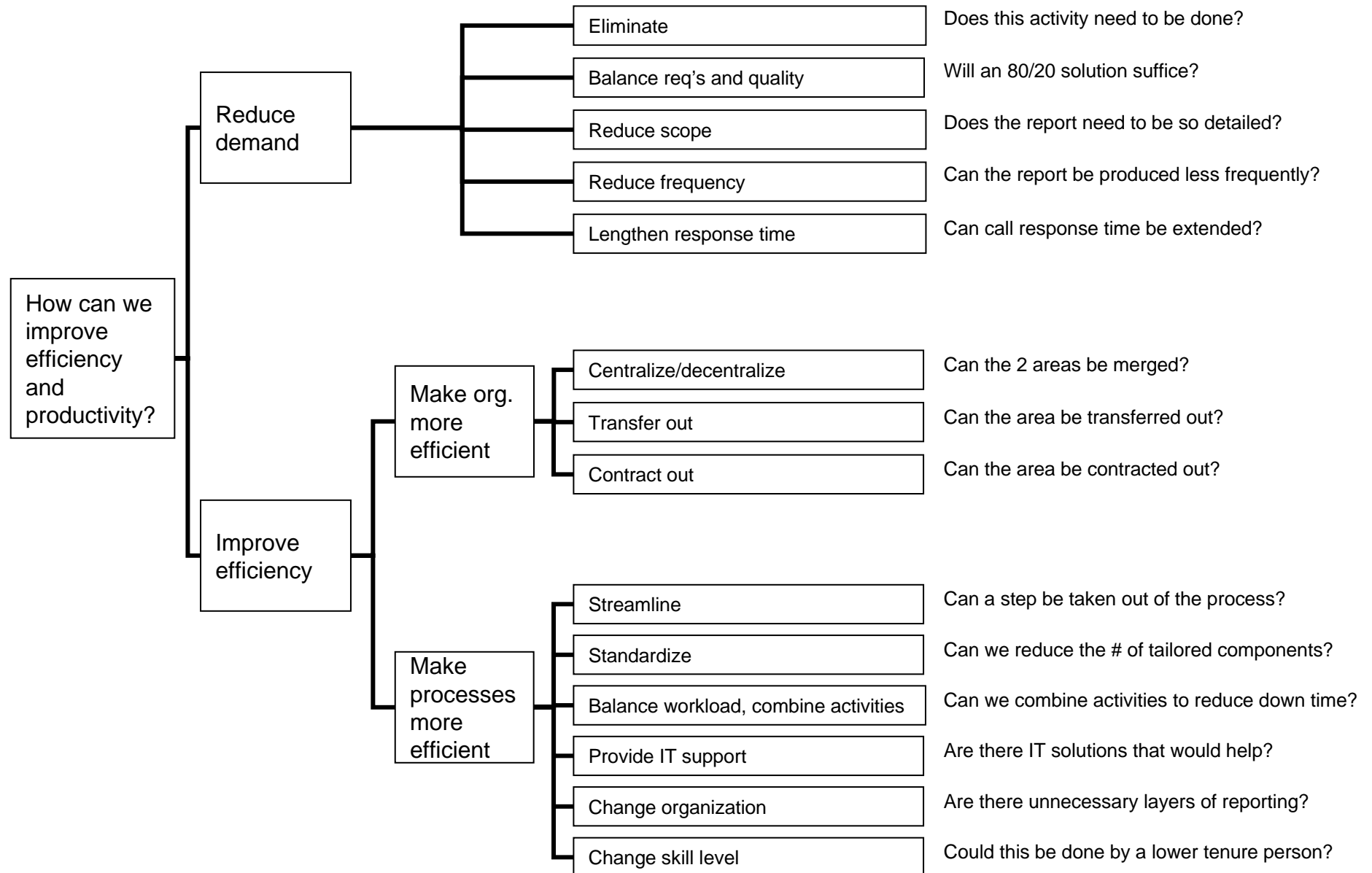
BRAINSTORMING TECHNIQUES: POST- IT



BRAINSTORMING TECHNIQUES: DECISION TREES



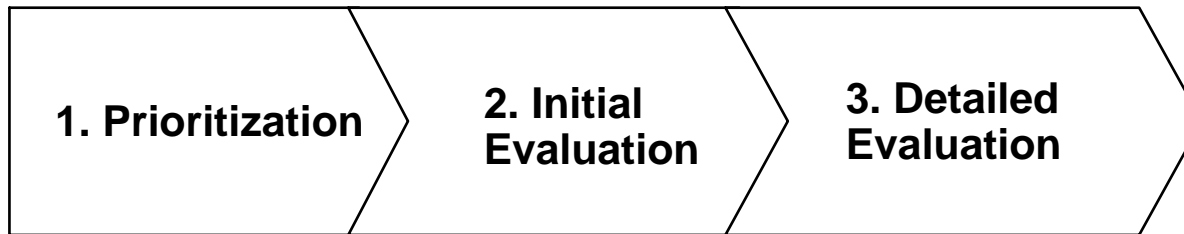
Examples



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PRIORITIZING AND EVALUATING IDEAS

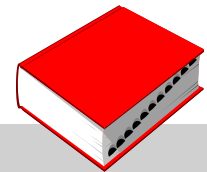


All Ideas

High Potential
Ideas

Top Priority
Ideas

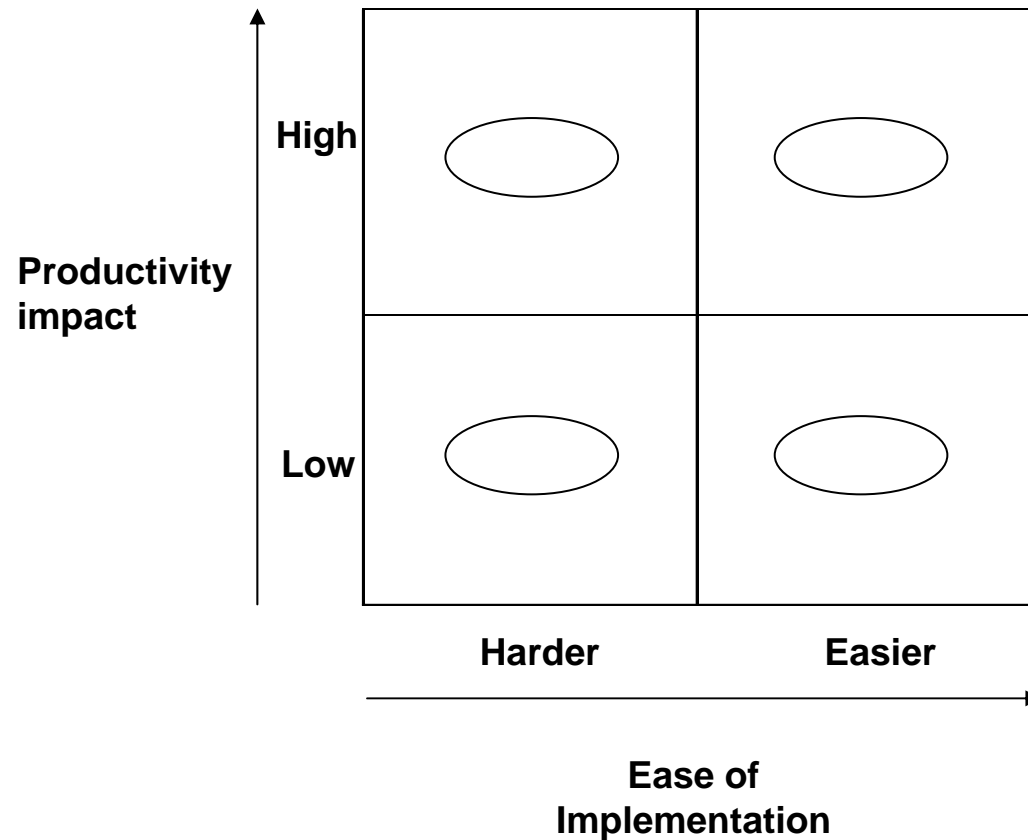
- Group prioritizes ideas based on potential impact and ease of implementation during brainstorming session
- Ideas are then coded and entered in idea catalogue
- Select high potential ideas
- Make a rough estimate of potential savings
- Identify potential risks
- Incorporate group's input
- Identify the most important interfaces and stakeholders
- Reiterate prioritization
- Select top priority ideas within high potential group
- Thoroughly describe change proposed
- Detailed risk assessment
- Conduct work meetings with key stakeholders to share proposal and incorporate their input
- Postpone less important details to implementation phase



Evaluation Guidelines:

- Scope the analysis adequately, analyze ideas in sufficient depth for a "Go/No Go" decision. Detailed analysis will be carried out during implementation
- Leverage input from stakeholders, brainstorming session participants and idea "owners" while conducting the evaluation
- Use templates and other tools provided by the PMO
- Document analysis for future reference

1. PRIORITIZE IDEAS BASED ON POTENTIAL PRODUCTIVITY GAINS AND EASE OF IMPLEMENTATION



3. MAKE A DETAILED EVALUATION OF SELECTED HIGH POTENTIAL IDEAS



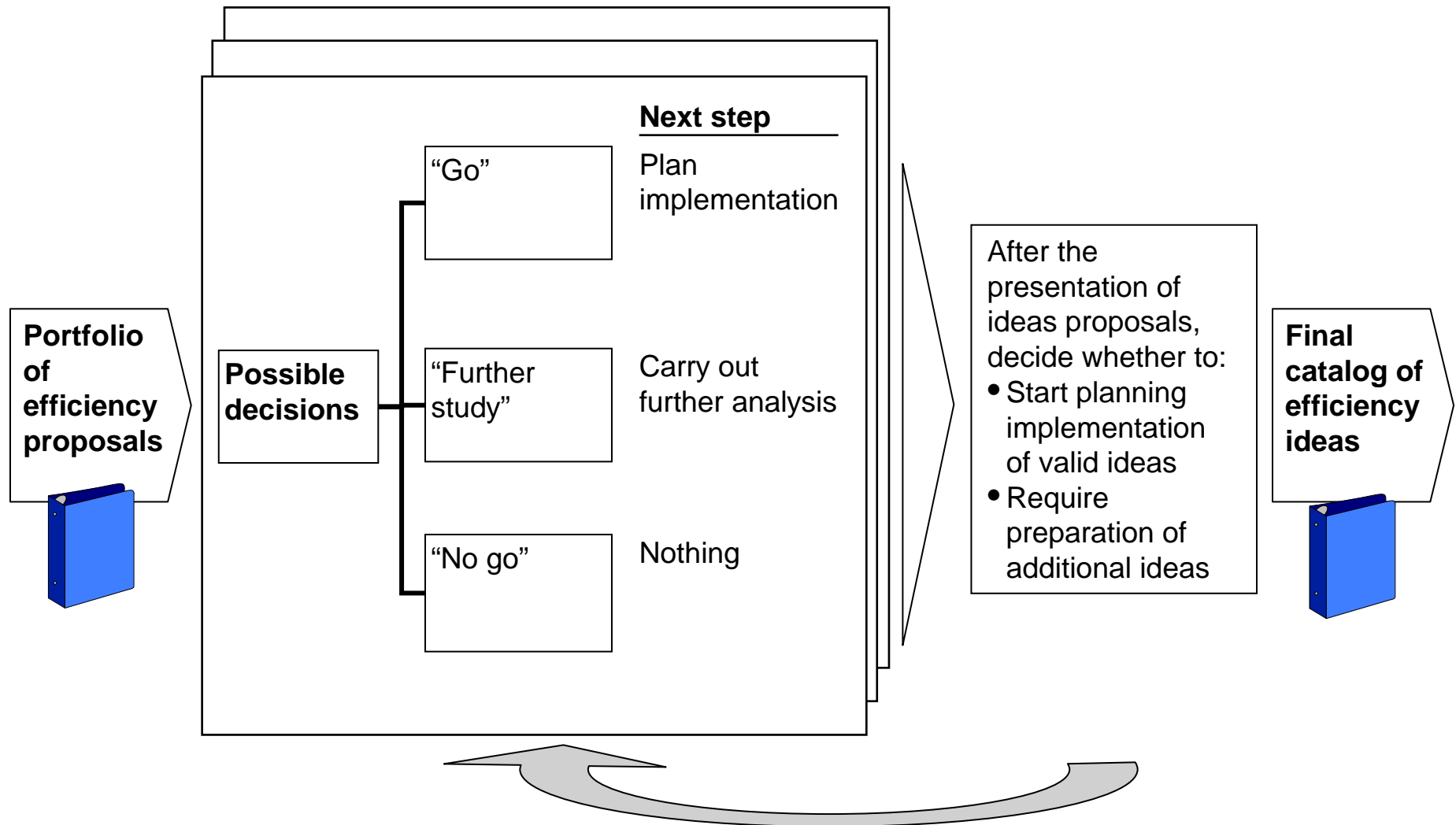
UNIT INFORMATION		Date 9/27/2007	
Name of Unit	1. General unit information		
Unit Leader(s)			
Team Leader			
Unit Baseline Budget			
Unit Baseline FTE			
IDEA INFORMATION			
Idea number <small>(should be a unique number and correspond to sheet number for ease of tracking)</small>	1		
Title (name of idea)			
Description of the current situation <small>Summary of situation proposed idea will address</small>			
Detailed description of improvement idea <small>Description of exactly what idea is</small>	2. Detailed Idea description		
Advantages/benefits <small>What benefits does the proposed idea provide?</small>			
Disadvantages/risks <small>What are the disadvantages or potential risks of implementing this idea?</small>	3. Qualitative risk assessment		
Key stakeholders (relevant parties) <small>Who are the key people/units/managers that this idea will affect?</small>			
Other comments <small>Any other comments relating to the idea (e.g. potential variations, alternative options, other details, etc)</small>			
Source of Idea <small>(Session # or CARs# or Other)</small>			
Affected MAE(s) <small>(Letter for Team, Letter for Unit, Number on Form 2 - e.g. Aa1.1.1)</small>			
Estimated Time of Implementation/launch date; duration in months			

3. MAKE A DETAILED EVALUATION OF SELECTED HIGH POTENTIAL IDEAS



Idea evaluation with stakeholders (Results of Stress testing Session)			
Position and name of evaluator	Comments	Evaluation	Risk
Unit Leader	<div>4. Stakeholders Evaluation and risk assessment</div>	No Go	High
Branch Manager			Low
PMO Member			Low
PMO Leader		Go	Low
Leadership Team		Go	Low
Over evalualtors (define)		Go	Low
Recommendation after evaluation			
Idea scope	<div>5. Project team recommendation</div>		

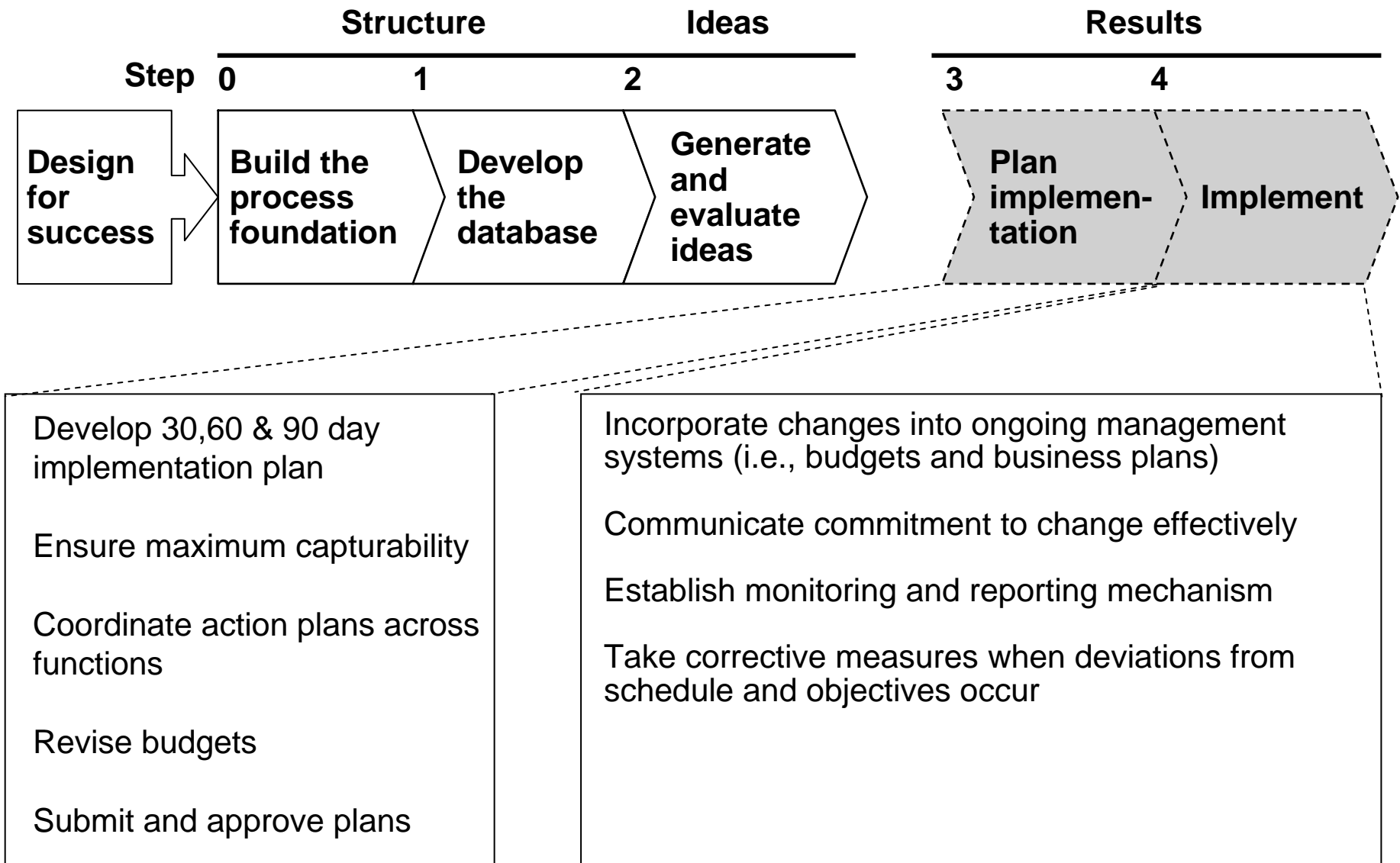
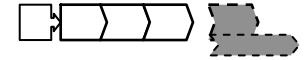
CLASSIFY IDEAS AND SUBMIT TO LEADERSHIP TEAM FOR FINAL APPROVAL



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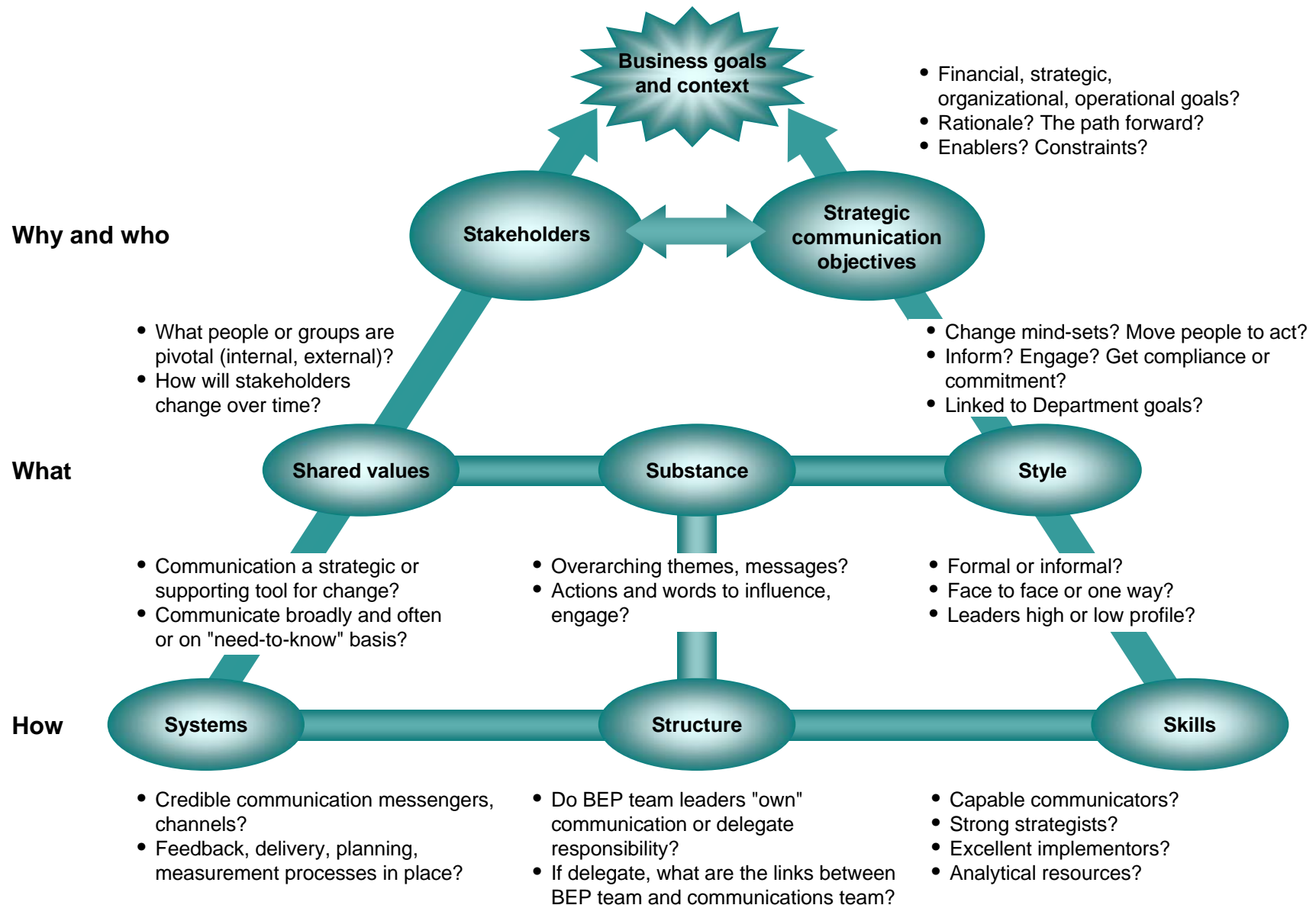
PHASES 3 AND 4: PLAN IMPLEMENTATION AND IMPLEMENT



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WHAT FACTORS SHOULD GUIDE NCDOT'S INTERNAL COMMUNICATION STRATEGY ON THE BEP EFFORT?



COMMUNICATIONS PLANNING

- The following four slides show templates and examples of communications strategies and plans.
 - The examples were written for an **international transportation company** reorganizing to support new strategic direction.
 - Communication was credited with engaging and securing the commitment of the top 300 leaders and maintaining the confidence of employees, customers, and financial analysts during the transition
 - Transportation company communication strategy (next two pages)
 - Transportation company communication plan – "slice" on bringing the leaders on board (subsequent two pages)
-

CLARIFYING A COMMUNICATION STRATEGY

TEMPLATE

Business/project
goals and context

Key stakeholders and
communications
objectives

Shared values about
communication

Substance/key
messages

Style of communication

Skills required

Systems, channels,
timing, feedback,
appraisal

Structure

SAMPLE COMMUNICATIONS STRATEGY

EXAMPLE

Business objectives	Organize to drive company in new direction and achieve stretch performance targets. New organization characterized by business unit rather than functional structure, clear decision rights, performance-oriented human resource strategy, and improved business processes
Stakeholders, communication objectives	Get commitment to and behavior change consistent with new direction from Top 300 leadership team, employees; reassure and retain customers; get and keep positive perceptions among shareholders, financial analysts
Shared values	Manager communication (words and actions) essential to buy-in and behavior change; essential to maintain confidentiality except on need-to-know basis until announcement so can increase buy-in and manage sensitivities around appointments
Substance	Vision; economic rationale; new organization as engine for performance; specifics (on structure, roles, processes, human resource strategy) tailored to target people and groups
Style	Cascade of phone calls and briefings prior to announcement; big burst of internal and external communication on announcement day and 2-3 weeks after announcement; emphasis on face-to-face, two-way communication; lead-from-the-front Top 7 and Transition Team
Skills	Tap skills of company's communication professionals (once could bring on board); build communication skills of Top 20-25
Systems	Emphasis on one-on-one and small group interactions; well-defined review and approval system among Transition Team and Top 7; real-time feedback on reactions, issues during briefings, and subsequent meetings
Structure	Transition team leaders or Communication Consultant as strategist and executors prior to announcement, then assumed by Corporate Communication VP and staff; Top 7 and Transition Team leader as decision makers and pivotal communicators

COMMUNICATIONS PLAN TEMPLATE

TEMPLATE

Action/Activities	Objective	Stakeholders	Vehicles	Timing	Responsibility

SAMPLE COMMUNICATIONS PLAN

EXAMPLE

Action/Activities	Objective	Stakeholders	Vehicles	Timing	Responsibility
• Brief Top 7 executives	• Final clarification of changes, their role in rollout	• Top 7 executives	• One-on-one conversations; pack	• June 1 (Thursday a.m.)	• Transition Team leader (CF), with McK support
• Invite corporate support function leaders to Top 20-25 briefing	• Give preview of change, explain role/no role; if role, invite to briefing	• Support function leaders	• Phone calls; talking points	• June 1 (Thursday p.m.)	• CEO, with back-office support from McK and Transition Team leader
• Invite Top 20-25 to briefing and rehearsal session	• Give preview of change; explain role/no role; if leader role, get commitment	• Top 20-25 leaders in new organization	• Phone calls; talking points	• June 1 (Thursday p.m.)	• Top 7, with back-office support as above
• Brief Top 20-25	• Understand all changes, their role • Rehearse next steps	• Top 20-25 (plus support function leaders)	• Off-site meeting; presentation, discussion; rehearsal	• June 2 (Friday p.m.)	• Top 7, Transition Team, with McK support
• Contact Top 50-75 (and those in Top 300 who must book travel)	• Alert to changes; explain role/no role for them; if on team, invite to off site	• To 50-75	• Phone calls; talking points	• June 2 (Friday p.m.)	• Top 25, with Transition Team and McK support
• Brief Top 50-75	• Begin getting understanding and buy-in; rehearse for phone calls	• Top 50-75; (plus support function leaders)	• Off-site; presentation, discussion; rehearsal	• June 3-4 (Saturday and Sunday)	• CEO, Top 7, Transition Team, with McK support
• Contact Top 300	• Alert to changes; explain role/no role; if role, invite to briefing	• Top 300	• Phone calls; talking points	• June 4 (Sunday p.m.)	• Top 50-75

A CHECKLIST FOR MANAGING COMMUNICATION

- ☒ If the news is bad, say so
- ☒ Tell the unvarnished truth
- ☒ Don't delay – people want to be told about restructuring before it happens to them
- ☒ Do not let employees think external consultants are behind change
- ☒ Always use the most credible communicator
- ☒ Ground messages in reality
- ☒ Enlist the support of employees in solving problems
- ☒ Tell a consistent story throughout the organization
- ☒ Let people express frustration and anger
- ☒ **Coordinate BEP communication with rest of transformation communication**

Strategic Prioritization Process & Planning Cycles



Discussion document
September 11, 2007

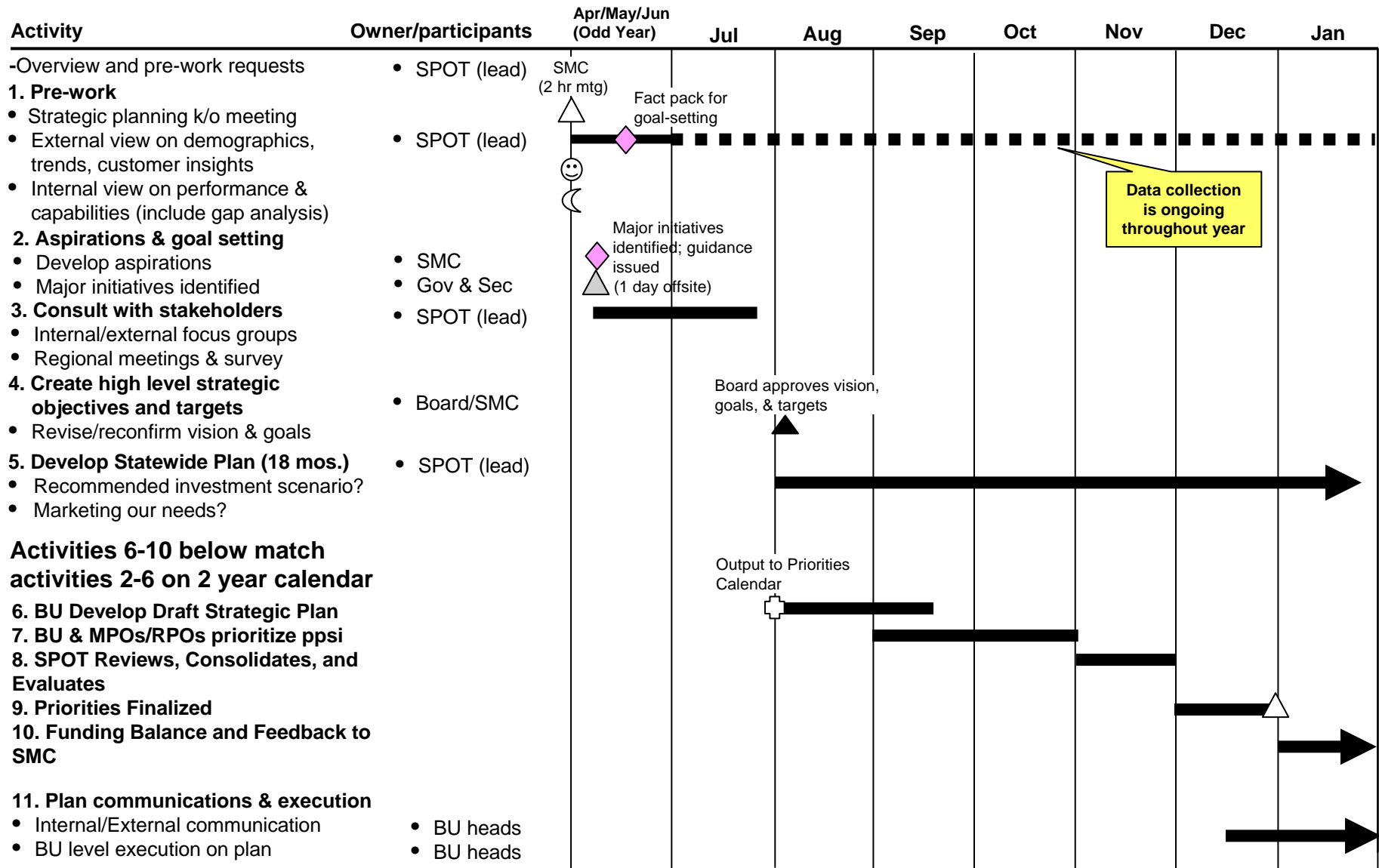
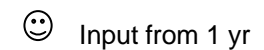
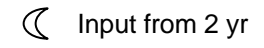
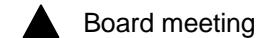
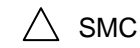
NCDOT'S STRATEGIC PLANNING DESIGN PRINCIPLES

Monitor, evaluate and
adjust using performance
metrics



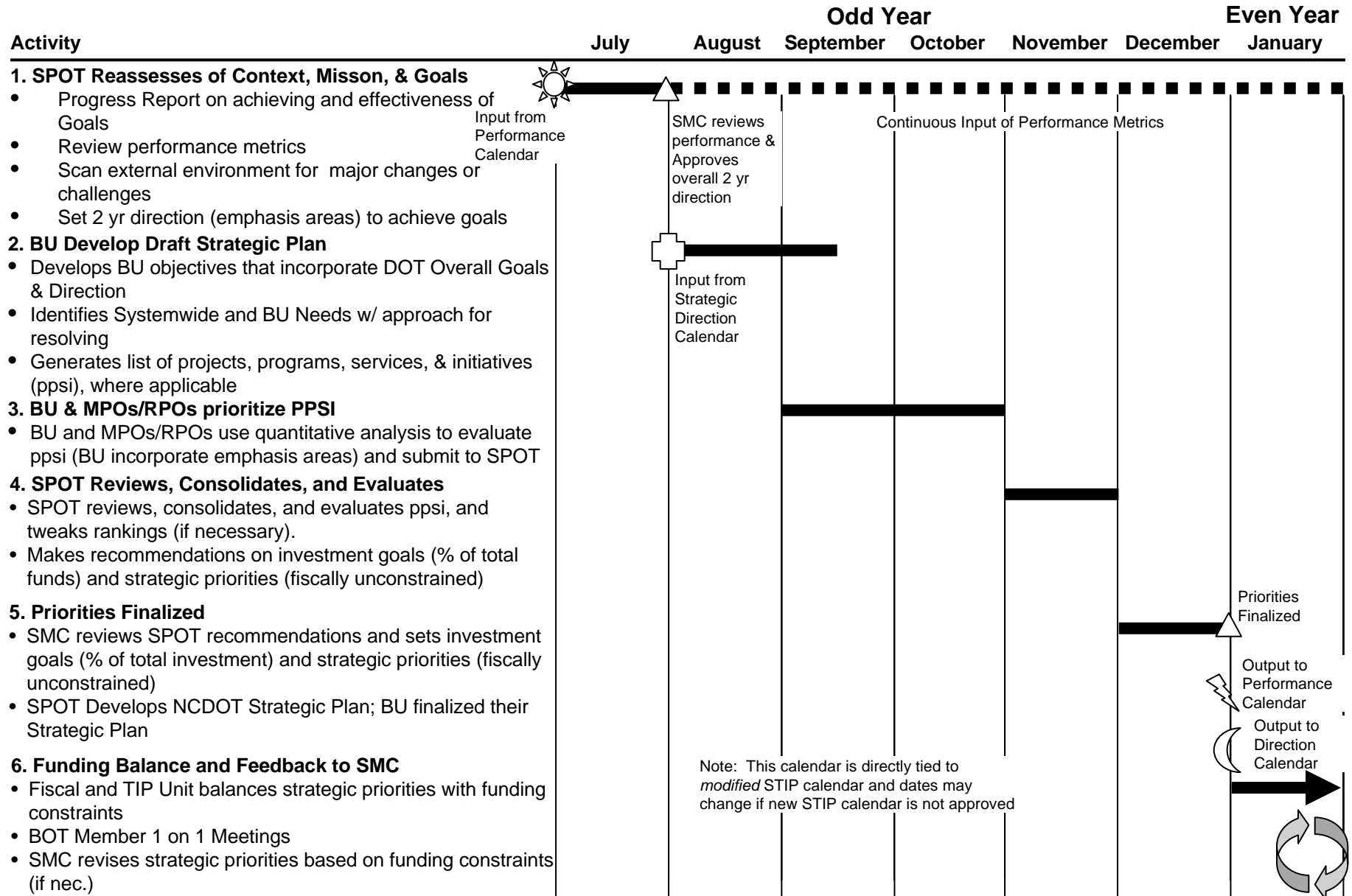
Process	Set Strategic Direction	Develop Strategic Prioritization	Create Action Plans
Target	<ul style="list-style-type: none"> • Department-wide 	<ul style="list-style-type: none"> • Department & BU-wide 	<ul style="list-style-type: none"> • Business Unit - wide & individual employee
Activities	<ul style="list-style-type: none"> • Collect a credible, robust fact base to guide decision-making • Set aspirations and goals • Refresh strategy to reflect new assumptions and changes to context • Statewide plan 	<ul style="list-style-type: none"> • Develop a compelling set of strategic options (i.e., articulating where and how to operate) • Prioritize those strategic options (e.g., by quantifying impact, estimating timing and assessing risks) • STIP/Budget request 	<ul style="list-style-type: none"> • Identify action items & owners • Build linkages with the budgeting cycle and talent review cycle to deploy appropriate resources and the best people against priority initiatives
Frequency	<ul style="list-style-type: none"> • Every 8 years 	<ul style="list-style-type: none"> • Every 2 years 	<ul style="list-style-type: none"> • Every year
Outlook	<ul style="list-style-type: none"> • 20-25 years 	<ul style="list-style-type: none"> • 2-7 years 	<ul style="list-style-type: none"> • 1-2 years
Duration	<ul style="list-style-type: none"> • ~8 months 	<ul style="list-style-type: none"> • ~6 months 	<ul style="list-style-type: none"> • ~2 months
Starts	<ul style="list-style-type: none"> • At change of administration 	<ul style="list-style-type: none"> • Summer of odd years 	<ul style="list-style-type: none"> • Spring of every year
Overarching principles	<ul style="list-style-type: none"> • Forward looking, long-term • Top down 	<ul style="list-style-type: none"> • Bottom Up in response to aspirations & objectives from above, medium term • Opportunity to define performance challenges 	<ul style="list-style-type: none"> • Bottom Up, short term • Plans defined • Metrics used to assess performance

DRAFT STRATEGIC DIRECTION CALENDAR (4/8 year horizon)



DRAFT Strategic Prioritization Calendar (2 year)

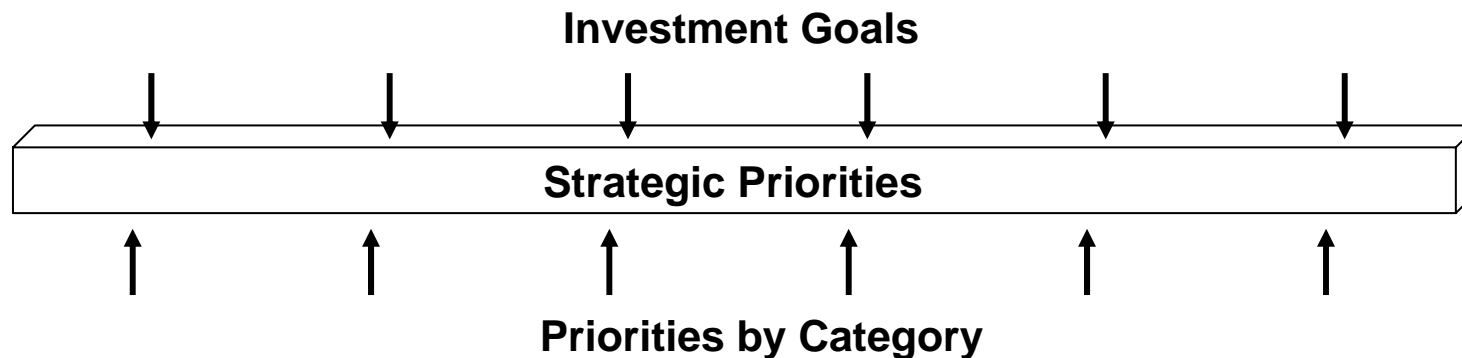
△ SMC Meeting



STRATEGIC PRIORITIZATION PROCESS OVERARCHING THEME

Operating the 21st Century Transportation System

Performance targets, based on the new mission and goals, and **needs** will determine the correct mix of projects, programs, services, and initiatives to fund

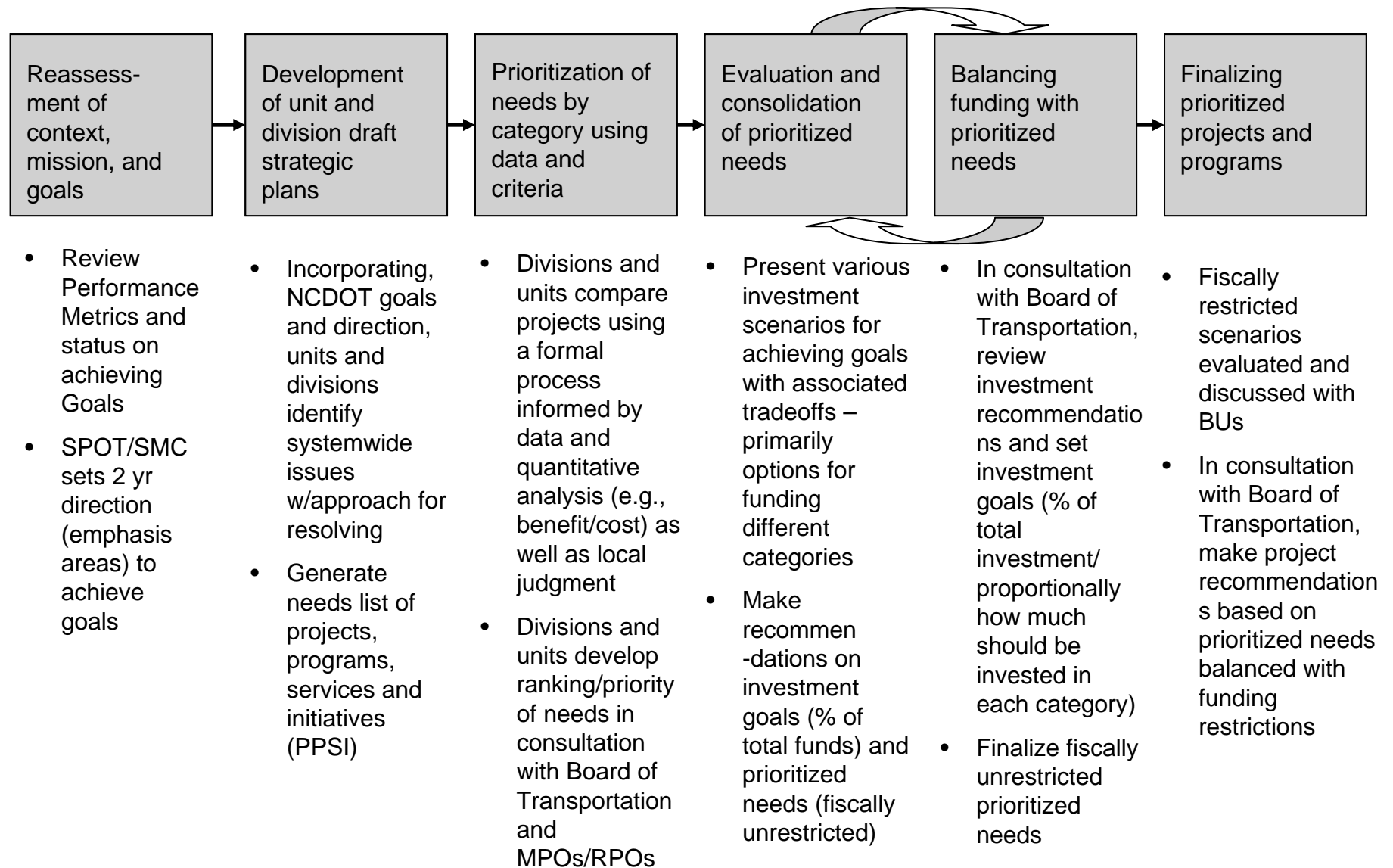


PROPOSED FUTURE STRATEGIC PRIORITIZATION PROCESS

- SPOT Reassesses Context, Mission, and Goals
- Business Units Develop Draft Strategic Plan
- Business Units Prioritize Projects, Programs, Services, and Initiatives by Category
- SPOT Consolidates and Evaluates Priorities
- SMC Finalizes Priorities
- SMC/TIP/Fiscal Balance Funding with Priorities

RECOMMENDED PRIORITIZATION PROCESS

High-level summary of prioritization process



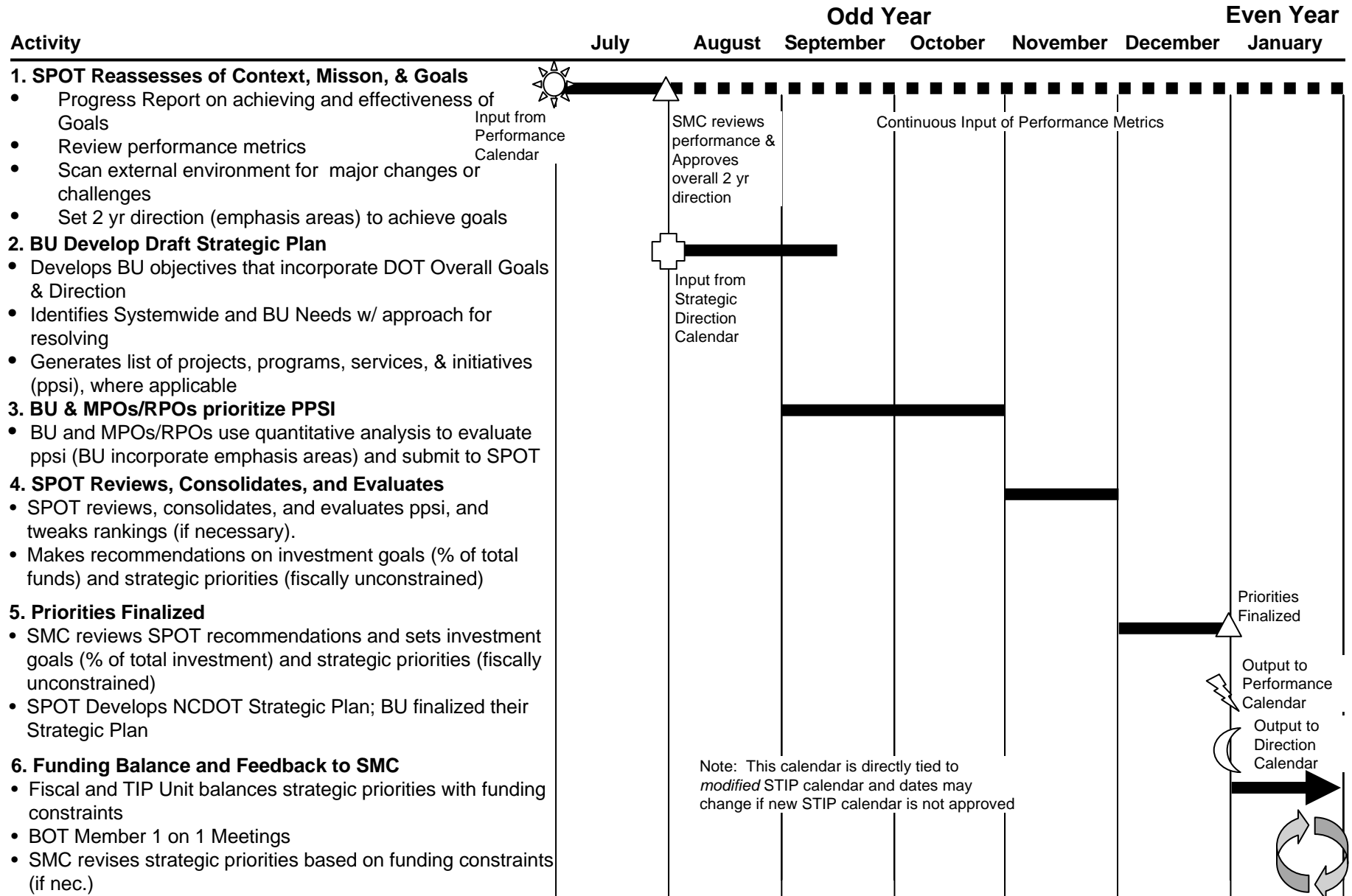
PROPOSED PRIORITIZATION CATEGORIES

Program/Activity*	Program/Activity*
Bridge Program	Rail Program
Statewide Tier Highway Safety Program	Rail Safety Program
Regional Tier Highway Safety Program	CMAQ Program
Subregional Tier Highway Safety Program	Rest Area Program
Statewide Tier Highway Mobility Program	Aviation Program
Regional Tier Highway Mobility Program	Ferry Program
Subregional Tier Highway Mobility Program	Public Transportation Program
Statewide Tier Highway Preservation Program	Weigh Station Program
Regional Tier Highway Preservation Program	Economic Development/Enhancement/etc
Subregional Tier Highway Preservation Program	Other Programs/Services/Initiatives (DMV Customer Service Initiatives, SHC Corridor Studies, Comprehensive Transportation Plans, IT Upgrades, GHSP, etc.)
Bicycle/Pedestrian Program	

*All programs/activities tie back to the goals

DRAFT Strategic Prioritization Calendar (2 year)

△ SMC Meeting



Draft ANNUAL PLANNING CALENDAR

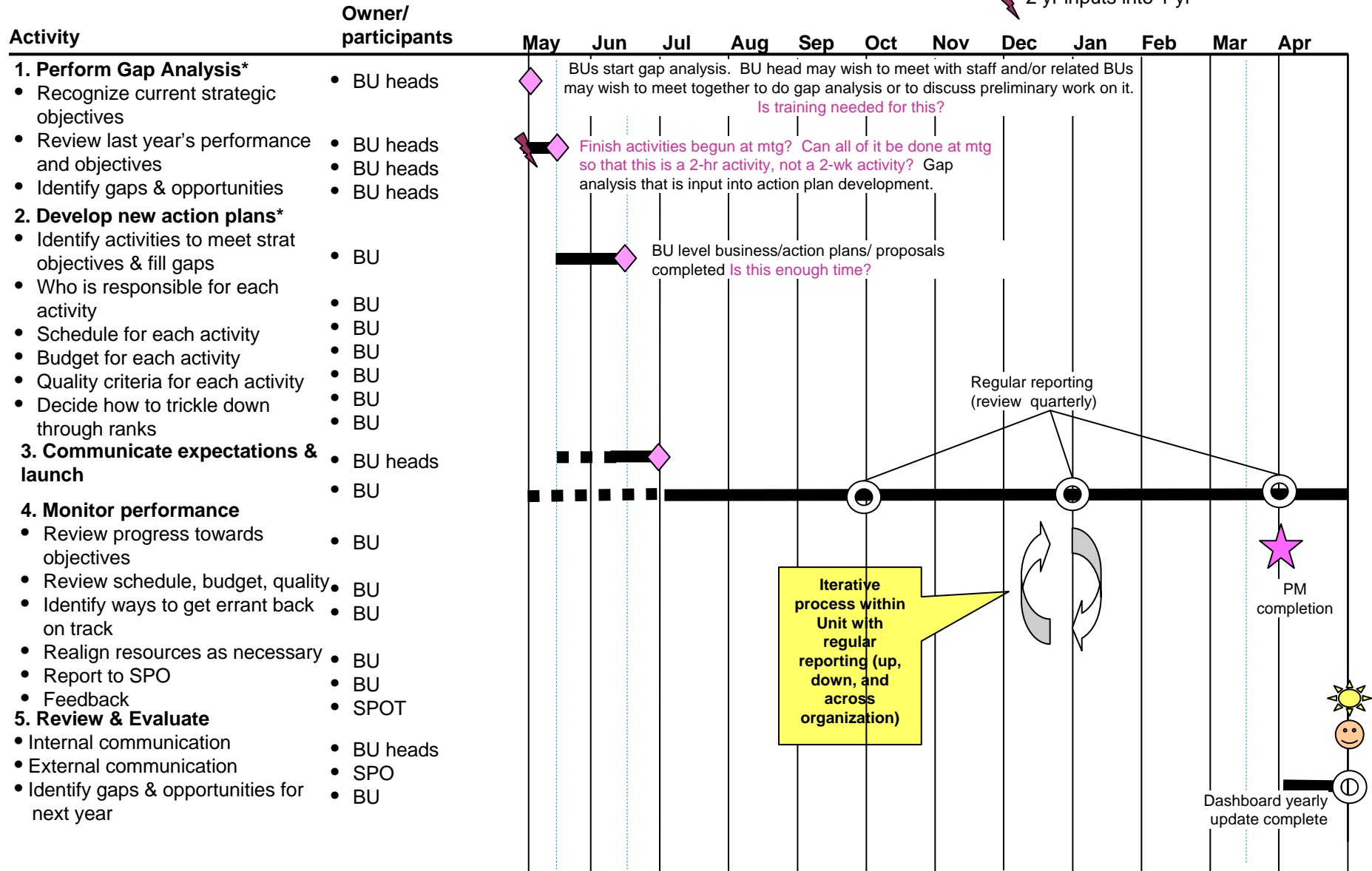
Business Unit Action Plan

⊙ Review of reports

😊 1 yr inputs into 4/8 yr (as applicable)

☀️ 1 yr inputs into 2 yr

⚡ 2 yr inputs into 1 yr



* Greater level of activity in strategy refresh years

Staffing the Strategic Planning Process

KEY PERSONNEL & DUTIES

A successful and meaningful strategic planning process will require the participation and enthusiasm of many within NCDOT.

- Strategic Management Committee-
 - Establish top-down guidance
 - Make decisions on key issues (aspirations, goals, scorecard, priorities, strategy)
 - Enforce discipline during planning process
- Strategic Planning Office for Transportation-
 - Drive planning process
 - Provide analysis of external environment and internal capabilities
 - Work with business units to develop “business case”
 - Develop strategic planning “skills training” for NCDOT organization
- Strategic Planning Liaisons-
 - One person within the larger BUs who will spend 25%-50% of their time driving strategic planning and implementation at the BU level

Definitions

Strategic Management Committee-

- Make decisions on key issues (aspirations, goals, scorecard, priorities, strategy)
- Enforce discipline during planning process
- provide checks and balances guiding the planning process
- provide a “One department” focus
- A place to challenge assumptions

Strategic Planning Office for Transportation-

- Drive planning process
- Provide analysis of external environment and internal capabilities
- Develop strategic planning “skills training” for NCDOT organization
- Assess demographics
- Provide information and recommendations on DOT priorities
- Collecting, maintaining, updating and benchmarking external environment data and best practices

1. STRATEGIC MANAGEMENT COMMITTEE

Principles

- A critical set of checks and balances guiding the planning process
- “One department” focus
- Priority on utilizing the most senior and most talented
- SMC must be expansive enough to get department-wide buy-in, but not so large that decision making becomes inefficient and slow
- A place to challenge assumptions

People

Selecting the membership of the SMC is a pivotal, challenging, and possibly political decision. Possible membership options include:

- Leadership Team
- Mix of permanent members (LT) slots with rotating member slots from further down organizational chart – i.e., TEM I and above
- Include key external partner (i.e. Federal Highway Administration)
- Include a rotating position for other key external partners (i.e., SHP, MPO, Commerce)

Process

- Committee chaired by Secretary, managed by Director of Strategic Planning
- Supermajority (>66%) required to approve decisions
- Does anyone have veto power?

1. STRATEGIC MANAGEMENT COMMITTEE - Roles & Responsibilities

- Establish top-down guidance
 - Input into aspirations & initiatives
 - Revisit mission & goals
- Adjust scorecard or filter
- Review and provide input toward final priorities
- Enforce discipline during planning process
- Review BU performance (Dashboard)
- Manage and direct SPOT activities
- Provide “one department” focus
- Provide statewide perspective
- Communicate strategy internally & externally
- Stay involved in process
- Meet at least quarterly

2. STRATEGIC PLANNING OFFICE ^(1/2)

Key “role and scope” issues

Key issue	Suggested outcomes
1. What is the charter and purpose of the organization?	<ul style="list-style-type: none">• Catalysts for strategic thinking and planning• Mechanism to formally examine Department-wide “big picture”• Training ground for high-potential candidates• Internal source of advisory and execution services for division/unit leadership
2. What key tasks will the organization be primarily responsible for?	<ul style="list-style-type: none">• Communicating the organization’s direction and intentions both internally and externally “ambassadors”• Producing strategic planning materials for Board and external stakeholders• Working with BU staff to develop “business cases” for projects and initiatives in ongoing, iterative process• Shepherd pipeline of certain high-priority cross-department projects and initiatives that go beyond scope of individual units/divisions• Collecting, maintaining, updating and benchmarking external environment data and best practices• Collecting and analyzing internal performance metrics

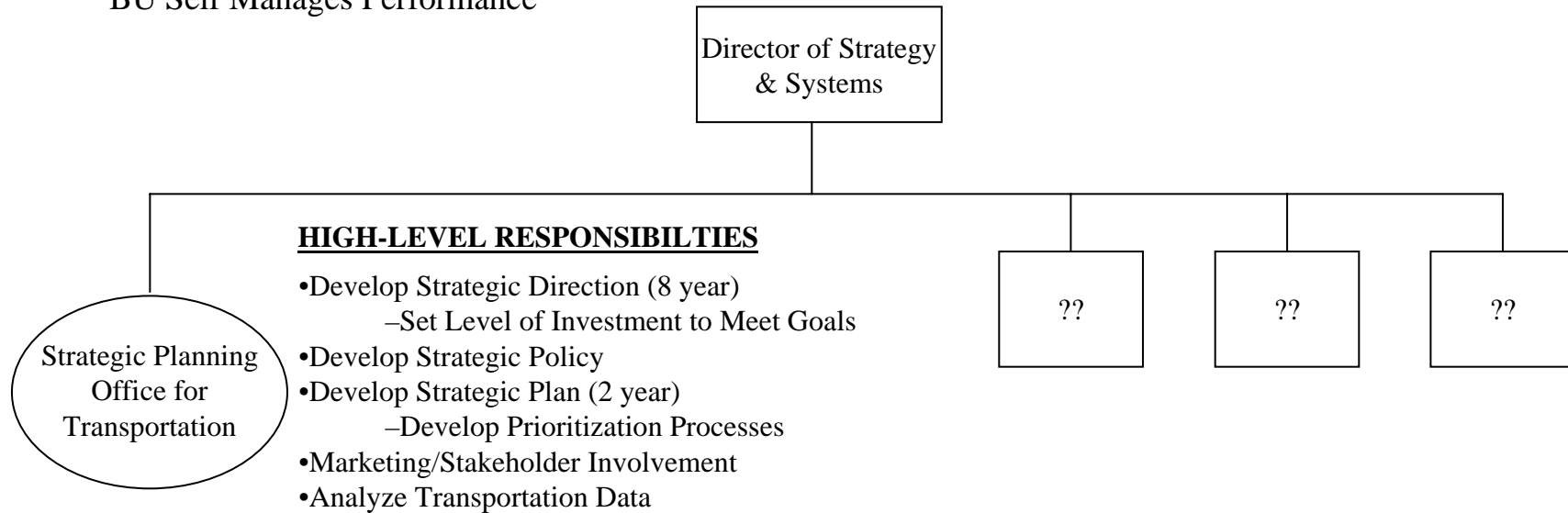
2. STRATEGIC PLANNING OFFICE (2/2)

Key “talent and skills” issues

Key Issue	Suggested outcomes
1. What skills and capabilities are required for success?	<ul style="list-style-type: none">• Strong analytical and problem-solving skills• Personal presence and ability to clearly communicate compelling messages to SMC, Board, etc.• Demonstrated ability to develop, produce, collate, analyze, interpret, and present quantitative and qualitative management information and external data
2. How will assignment to the organization contribute to an energizing career path?	<ul style="list-style-type: none">• Broader set of experiences/skills• Greater exposure to leadership in the organization• Top performers doing 2-year rotations in strategic planning before being promoted up to higher line positions<ul style="list-style-type: none">– Key way to cross-train, develop talent for succession, create buy-in amongst talented staff, and build holistic organizational perspective– To make this appealing, must connect to a robust career path – (i.e., consider adding strat planning experience as recommended experience for high-ranking, desired jobs)• Create opportunities – possibly “planning fellowships” for exceptional straight-out-of-graduate school hires who will perform external or internal data analyst-type work
3. What is the optimal mix of talent profiles in the organization?	<ul style="list-style-type: none">• Mix of rotating positions and permanent, high-quality senior management with previous experience in strategic planning, finance and project management• Recommend external hire for first Director of Strategic Planning

SPOT Organization Chart - Near Term Option

BU Self Manages Performance



Immediate Staffing Needs

- Manager
- Communications Specialist
- Analyst
- Administration

Is there a need for these interactions?

- Does SPOT assist with BU level strategic plan
- Does SPOT assist with BU level action plan development?
- Does SPOT provide regular reporting, feedback & end of year wrap-up to BU?
- Does SPOT monitor and report performance to leadership?

Who owns performance reporting process?

- “Graybook”
- Dashboards

Questions?



Leadership Team – Strategic Prioritization Process

Discussion Document

September 18, 2007

Discussion with Leadership Team on 9-18-07

Purpose: To discuss and receive approval to move forward on:

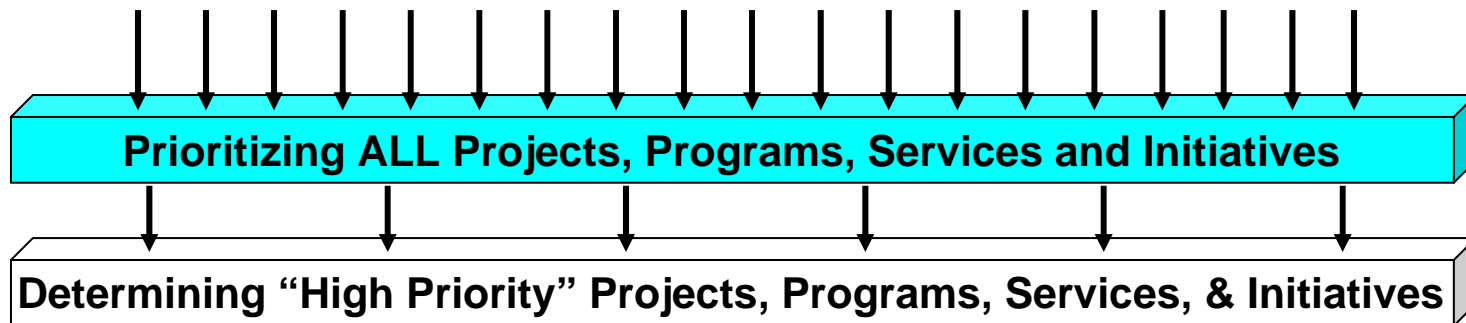
- Revised prioritization process which includes scenario evaluation (process validated at Summit and revised per Exec Comm comments – revisions shown in blue)
- Revised “RACIN” chart detailing responsibilities
- Groups responsible for prioritizing programs
- Terminology and what to prioritize
- How “High Priorities” are determined (recap of meeting on 8-29-07)

STRATEGIC PRIORITIZATION : DEVELOPING PROGRAMS, SERVICES, & INITIATIVES

Operating the 21st Century Transportation System

Overarching theme: Performance targets, based on the new mission and goals, and needs will determine the correct mix of programs, services, and initiatives to fund

TWO separate but related processes:

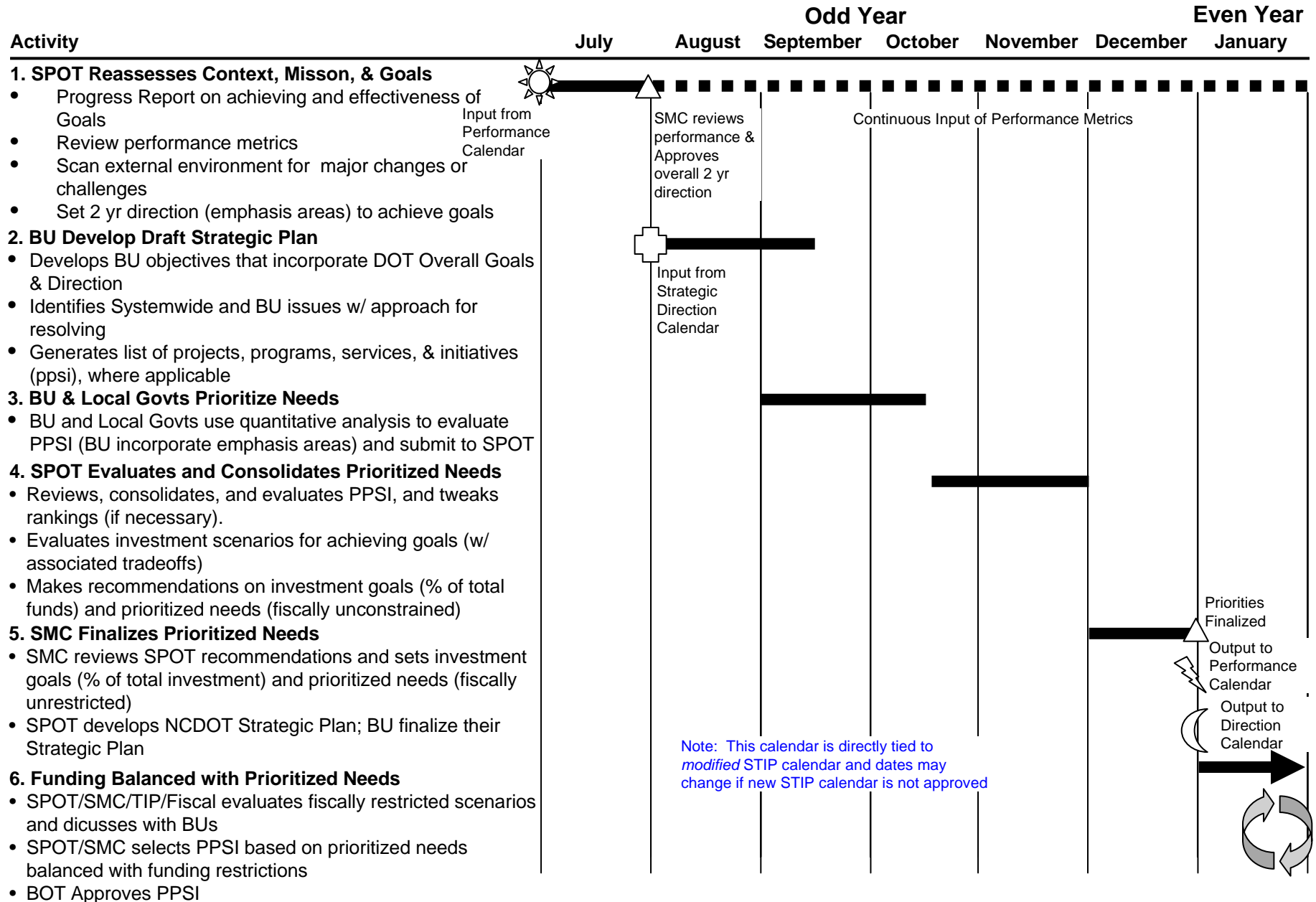


STRATEGIC PRIORITIZATION: TABLE OF CONTENTS

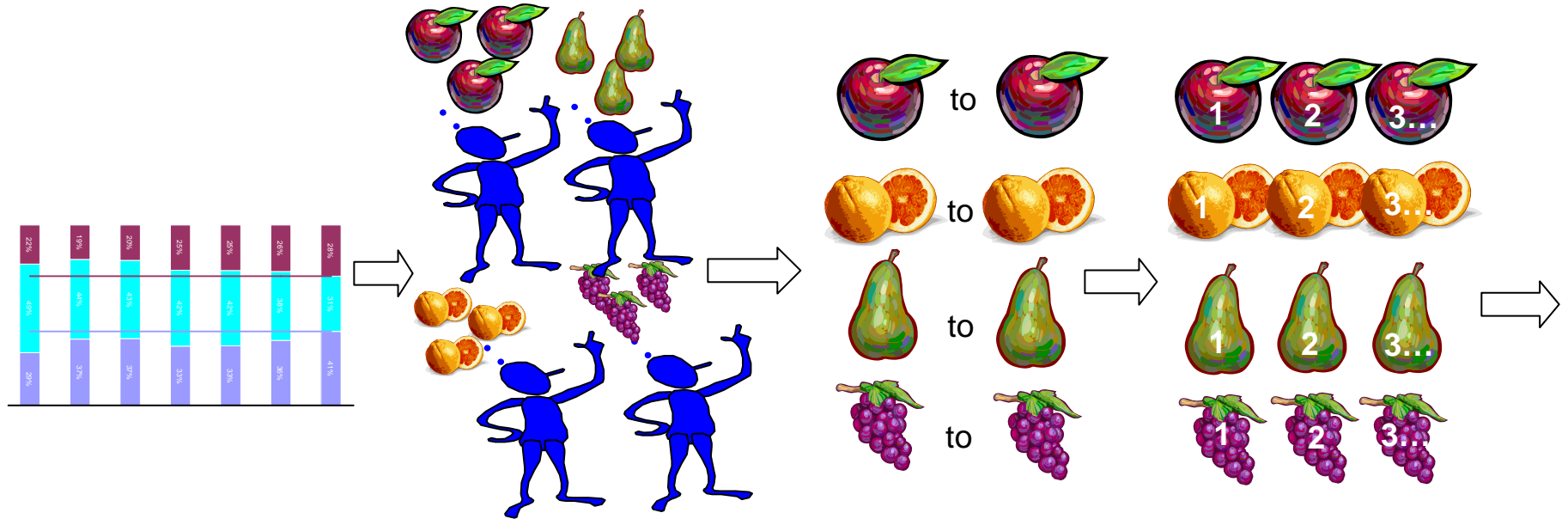
1. Context, Mission, and Goals Reassessment
2. Business Unit Draft Strategic Plan Development
3. Prioritization of Needs by Category
4. Evaluation and Consolidation of Prioritized Needs
5. Finalizing Prioritized Needs
6. Balancing Funding with Prioritized Needs

DRAFT Strategic Prioritization Calendar (2 year)

△ SMC Meeting



STRATEGIC PRIORITIZATION: DETERMINING PRIORITIES



1. SPOT reassesses Context, Mission, & Goals

- Review Performance Metrics and status on achieving Goals
- SPOT/SMC sets 2 yr direction (emphasis areas) to achieve goals

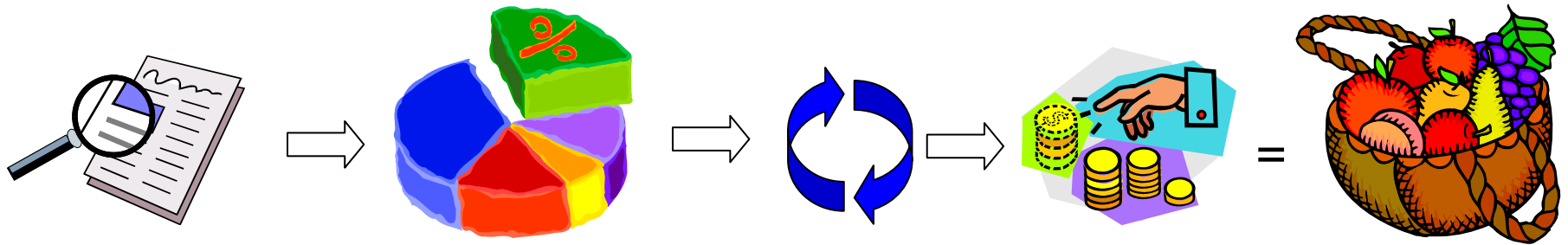
2. BU's Develop Draft Strategic Plan

- Incorporates DOT Goals & Direction
- BU's identify systemwide issues w/approach for resolving
- Generates Needs list of projects, programs, services and initiatives (PPSI)

3. BU's Evaluate and Prioritize Needs

- BU's compare like projects using a formal process or a quantitative analysis/data driven if applicable (PV Model, B/C Analysis, etc), and/or programs, services, and initiatives using business case templates. Coordination with other BU's as nec.
- BU's develop ranking/priority of Needs and submit to SPOT

STRATEGIC PRIORITIZATION: DETERMINING PRIORITIES



4. SPOT Evaluates and Consolidates Prioritized Needs

- Presents various investment scenarios for achieving goals (w/ associated tradeoffs) – primarily options for funding different categories
- Makes recommendations on investment goals (% of total funds) and prioritized needs (fiscally unrestricted)

5. SMC Finalizes Prioritized Needs (Unrestricted)

- SMC reviews SPOT recommendations and sets investment goals (% of total investment/ proportionally how much should be invested in each category) and finalizes prioritized needs (fiscally unrestricted)

6. SPOT/SMC/TIP/Fiscal Balance Funding with Prioritized Needs (Restricted)

- Fiscally restricted scenarios evaluated and discussed with BUs
- SPOT/SMC selects PPSI based on prioritized needs balanced with funding restrictions

Outcome

- Strategically chosen and funded PPSI
- NCDOT Strategic Plan (developed by SPOT)
- BU level Strategic Plan

STRATEGIC PRIORITIZATION: ROLES AND RESPONSIBILITIES

RACIN' framework Responsible ... for completing the work Accountable ... for the decisions and for granting approval Consulted ... before decisions are made or action is taken Informed ... of decisions iNput into the process...	Activity	SPO	SMC	BUs	BOT	Sec.	MPOs	RPOs	Public
	Reassessment of Context, Vision, & Goals	R	A	N	I	C	I	I	I
	Development of Business Unit Draft Strategic Plans	C	I	R/A					
	Prioritization of Projects, Programs, Services, and Initiatives by Category	I		R/A	C	N	R/A	R/A	N
	Review, Consolidation, and Evaluation of Needs	R/A		C					
	Finalizing Prioritized Needs and Strategic Plan (Unrestricted)	R	A	I	C	C	I	I	I
	Balancing Funding with Prioritized Needs (Restricted)	R	R	C	A	C	I	I	I

STRATEGIC PRIORITIZATION: GROUPS RESPONSIBLE FOR PRIORITIZING PROGRAMS

*All programs/activities tie back to the goals

**BOT will provide input through the Divisions & Local Govts

Program/Activity*	Responsible/Accountable	Consulted**
Bridge Program	Bridge Team (tbd)	Divisions
Statewide Tier Highway Safety Program	Safety Team/Divisions (tbd)	
Regional Tier Highway Safety Program	Safety Team/Divisions (tbd)	
Subregional Tier Highway Safety Program	Safety Team/Divisions (tbd)	
Statewide Tier Highway Preservation Program	Pavement Management Unit	Divisions
Regional Tier Highway Preservation Program	Divisions	
Subregional Tier Highway Preservation Program	Divisions	
Statewide Tier Highway Mobility Program	Systems Mgmt Team (tbd)	Divisions
Regional Tier Highway Mobility Program	Divisions	Local Govts
Subregional Tier Highway Mobility Program	Local Govts	Divisions
Bicycle/Pedestrian Program	Bicycle & Pedestrian Division	Divisions
Rail Program	Rail Division	
Rail Safety Program	Rail Division	
CMAQ Program	Local Govts	Transportation Planning/Divisions
Rest Area Program	Roadside Environmental Unit	Divisions
Aviation Program	Aviation Division	Divisions
Ferry Program	Ferry Division	Divisions
Public Transportation Program	Public Transportation Division	
Weigh Station Program	SHP/DOH	Divisions
Economic Development/Enhancement/etc	Appropriate Committee/Council	
Other Programs/Services/Initiatives (DMV Customer Service Initiatives, SHC Corridor Studies, Comprehensive Transportation Plans, IT Upgrades, GHSP, etc.)	Individual Business Units	Others as needed

STRATEGIC PRIORITIZATION: QUESTIONS

Terminology??

Safety, Mobility, and Preservation (Based on Goals)

vs.

Modernization, Expansion, and Preservation (Statewide Plan)

What is prioritized?

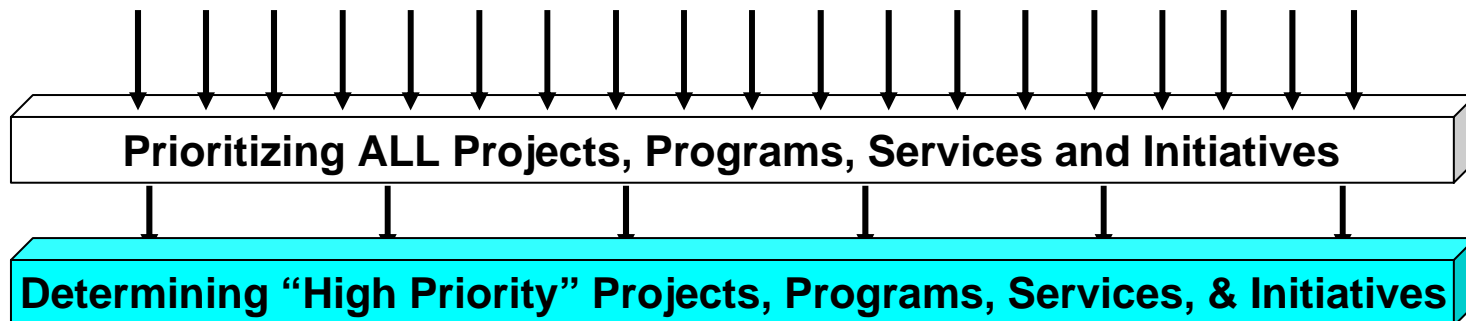
- New and/or modified programs, services, and initiatives
- Projects not “locked down”

STRATEGIC PRIORITIZATION : DEVELOPING PROGRAMS, SERVICES, & INITIATIVES

Operating the 21st Century Transportation System

Overarching theme: Performance targets, based on the new mission and goals, and needs will determine the correct mix of programs, services, and initiatives to fund

TWO separate but related processes:



STRATEGIC PRIORITIZATION: DETERMINING HIGH PRIORITIES

Purpose: To determine the Department's top cross-cutting priorities which can be used:

- As a communication and marketing tool
- To set high priorities (i.e., that have scheduling priority)
- To expose the need to increase funding and/or flexibility.

Options (discussed at LT meeting on 8-29-07)

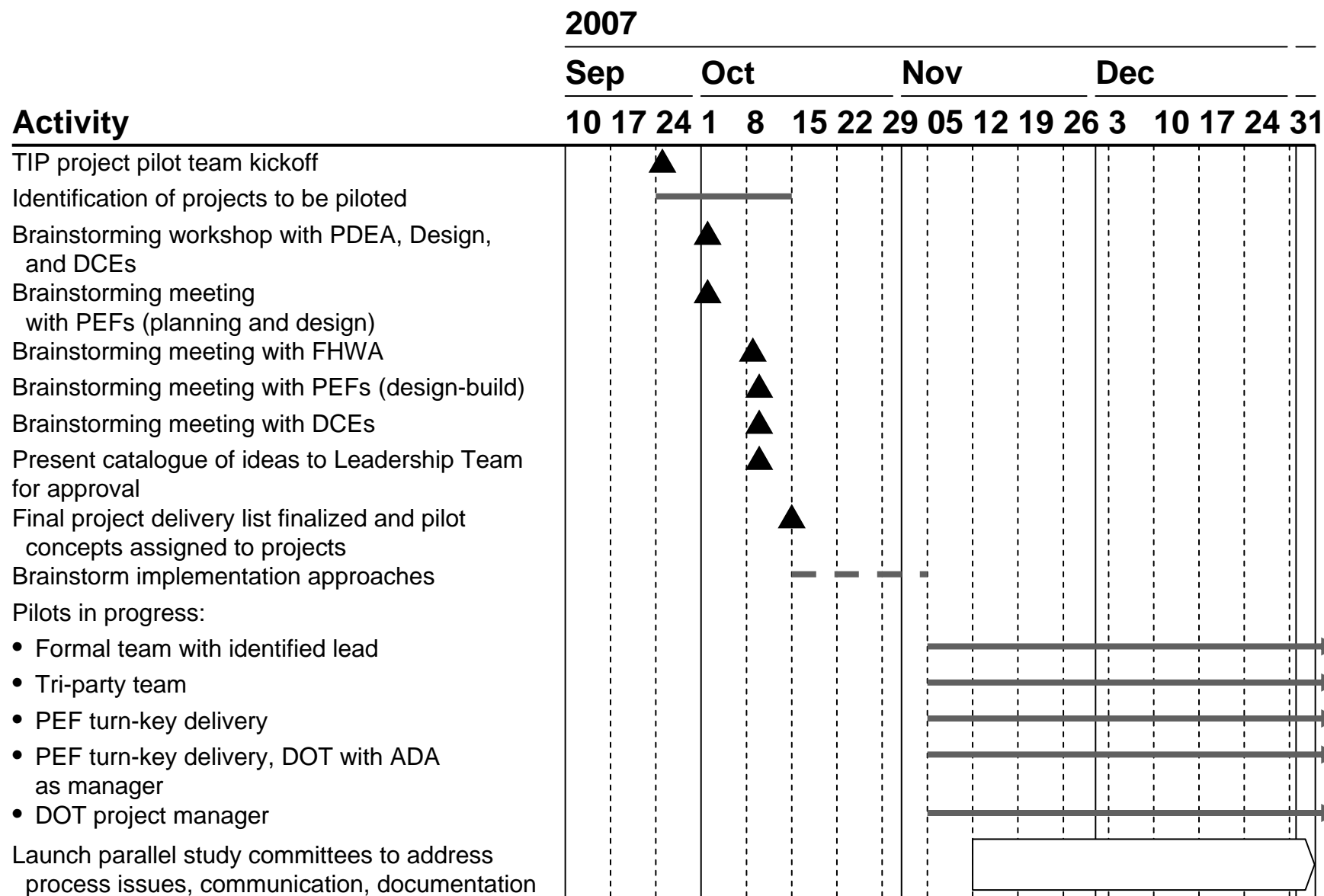
1. Strategic Management Committee Decides – Preferred by the LT for Short-term
2. No High Priorities – Preferred by the LT for Long-term

Implementation Plans for Pilot Projects



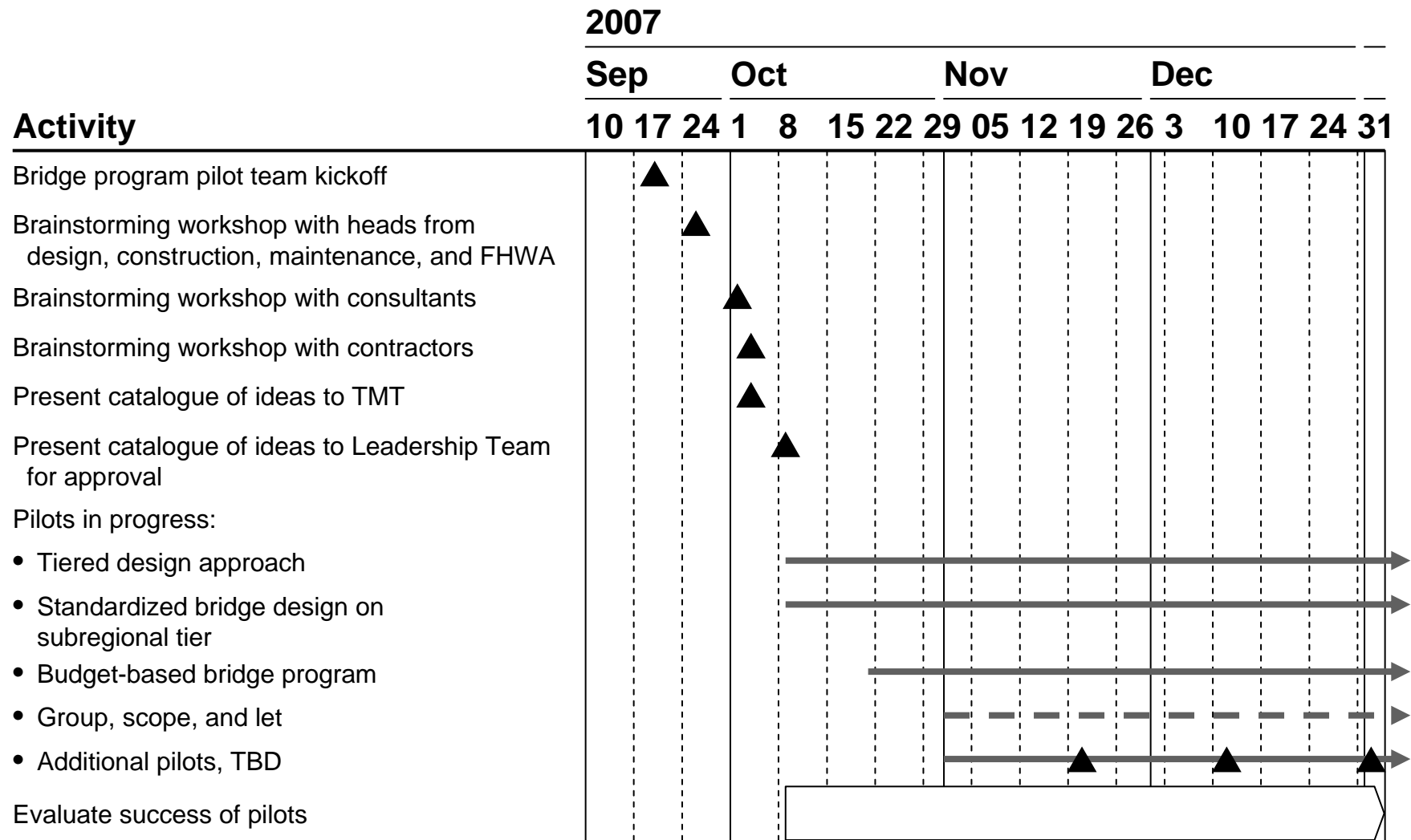
TIP PROJECT PILOTS

PRELIMINARY



BRIDGE PROGRAM PILOTS

PRELIMINARY



CONFIDENTIAL

Performance Metrics & Management Summary Working Document



Discussion Document

August 2007

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PERFORMANCE METRICS AND MANAGEMENT

Core questions

Deliverable

- ① What work will the performance metrics and management team complete?
- ② How will NCDOT gauge its performance over time?
- ③ How will NCDOT manage its performance metrics?
- ④ How will the new performance management scheme be rolled out through the organization?

- ① Context and initiatives
- ②a Value tree describing core value drivers for NCDOT, linked to vision and goals
- ②b High-level performance dashboard containing metrics based on prioritized value drivers
- ②c Division and branch/unit-level dashboards generated by cascading the high-level dashboard metrics through NCDOT
- ③a Performance targets for NCDOT high-level dashboard metrics
- ③b List/schedule for multi-level performance reviews with associated agendas
- ③c Guidelines for shifting mind-sets toward metrics-based management
- ④a List of key stakeholders needed to facilitate introduction of metrics-based management
- ④b Task/engagement checklist to enable performance metric planning
- ④c Plan to launch performance management pilot

PERFORMANCE METRICS AND MANAGEMENT-CONTEXT AND INITIATIVES

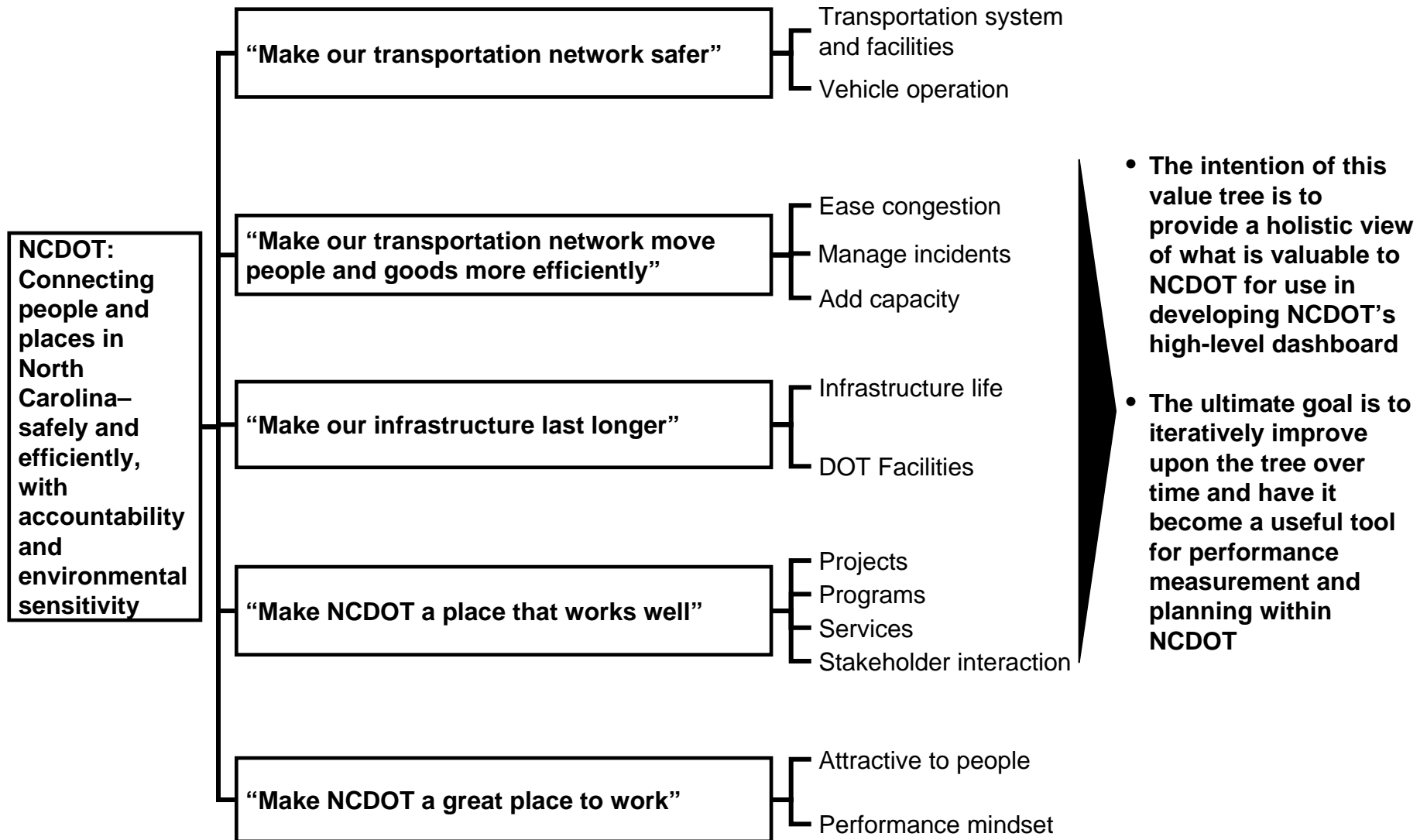
Context

- **There has been some implementation of performance management measures within business units, but those efforts are not explicitly linked to NCDOT nor other business unit priorities**
 - Only 36% of employees agree/strongly agree that “employees day-to-day behavior is guided by the NCDOT’s strategy.”
 - Only 44% of employees observe always/often that “operating measures are clearly defined in each area of the organization.”
- **NCDOT’s ad hoc nature of performance indicator generation sometimes led to conflicting needs between units**
 - Diagnostic found that different parts of organization have different levels of focus on metrics like cost, quality, and timing
 - Only 37% of employees observe always/often that “NCDOT holds challenging reviews to evaluate performance against the operational plan/key performance indicators.”

Initiatives

- Develop performance metrics
 - Determine NCDOT value drivers linked to vision and goals
 - Prioritize value drivers and generate high-level performance metrics
 - Cascade metrics downward through NCDOT
- Develop metrics management methodology
 - Establish performance targets
 - Introduce multi-level quarterly performance review process
 - Create methodology to link metrics with individual performance reviews
- Develop rollout plan
 - Conduct training sessions to adjust mindsets toward metrics-based management
 - Launch process for adjusting information systems to track and post metrics internally and externally
 - Create rollout plan for introduction of quarterly business reviews

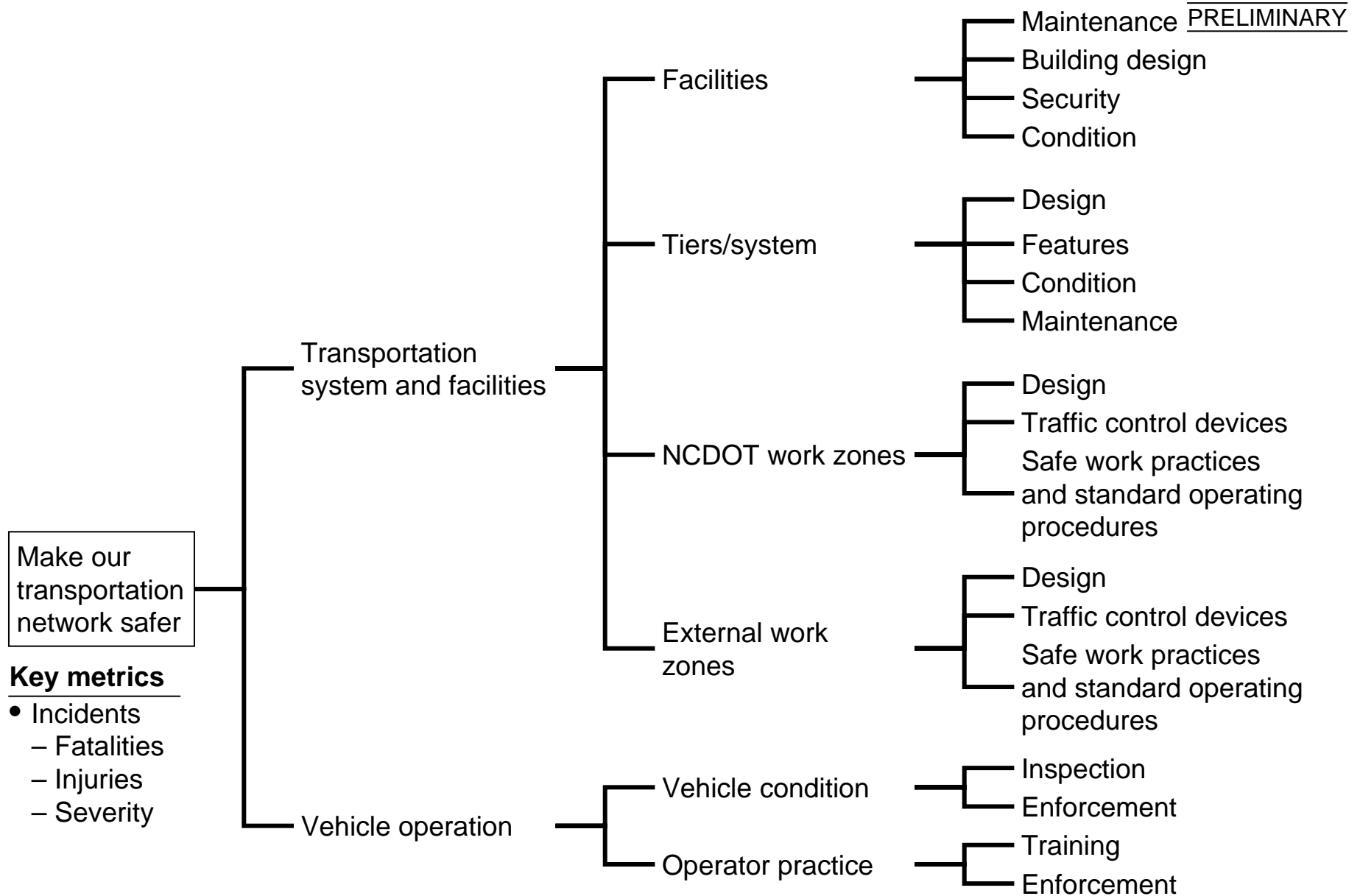
BEFORE PERFORMANCE METRICS CAN BE DEVELOPED, THE MAJOR DRIVERS OF VALUE FOR NCDOT MUST BE DETERMINED



Source: NCDOT TMT analysis

MAKE OUR TRANSPORTATION NETWORK SAFER

2a

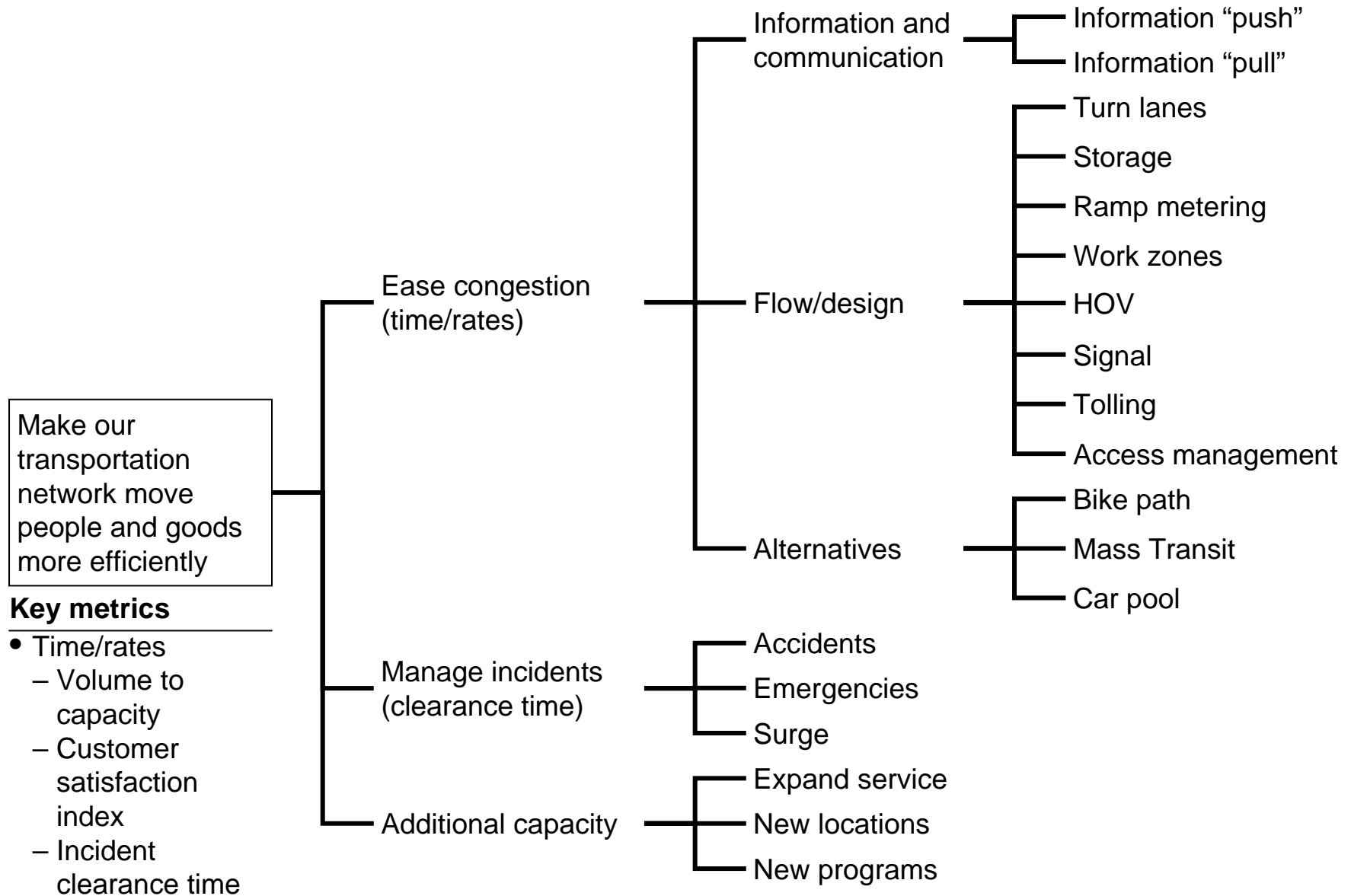


Source: NCDOT TMT and McKinsey analysis

MAKE OUR TRANSPORTATION NETWORK MOVE PEOPLE AND GOODS MORE EFFICIENTLY

2a

PRELIMINARY

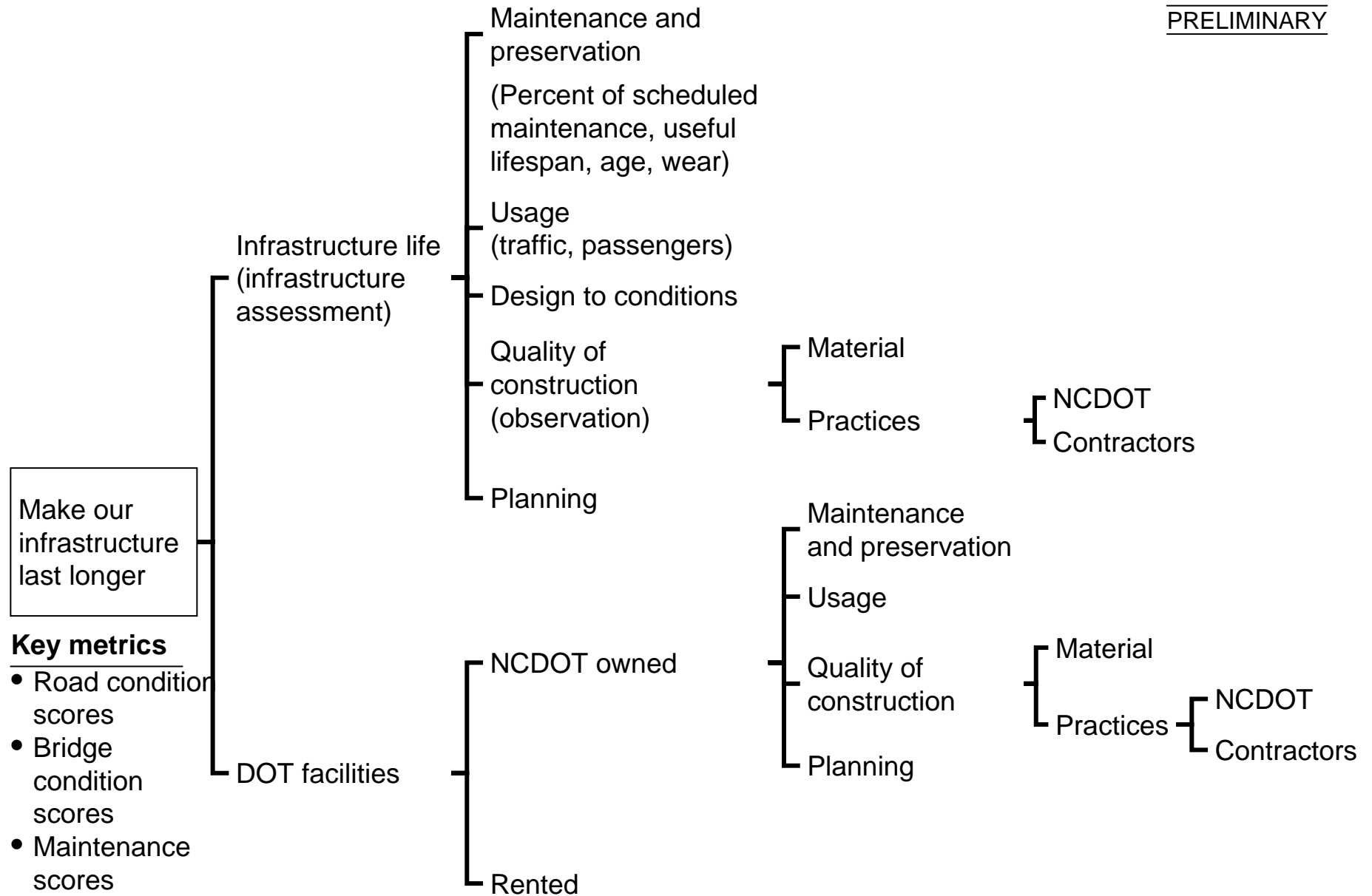


Source: NCDOT TMT and McKinsey analysis

MAKE OUR INFRASTRUCTURE LAST LONGER

2a

PRELIMINARY

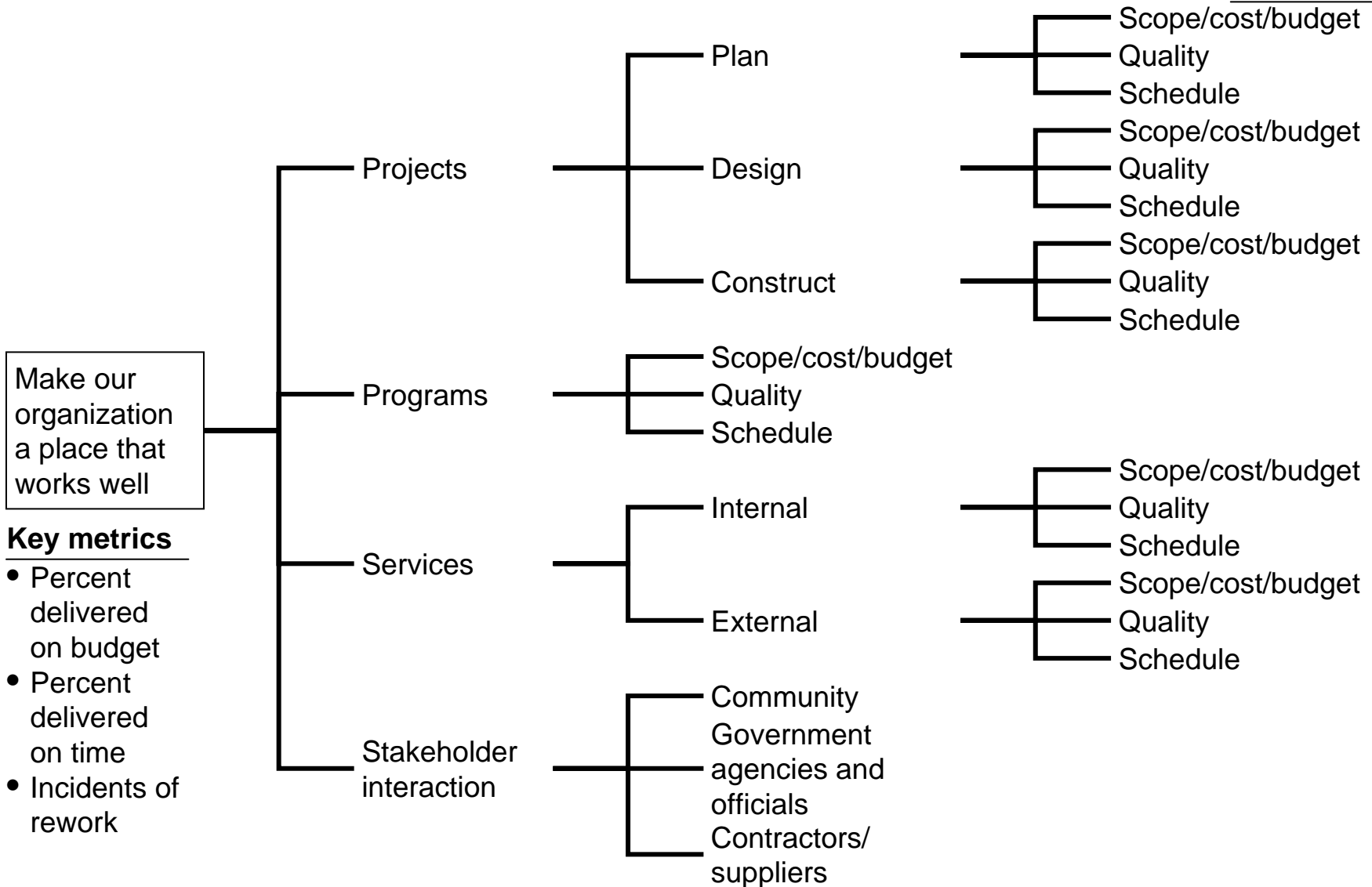


Source: NCDOT TMT and McKinsey analysis

MAKE OUR ORGANIZATION A PLACE THAT WORKS WELL

2a

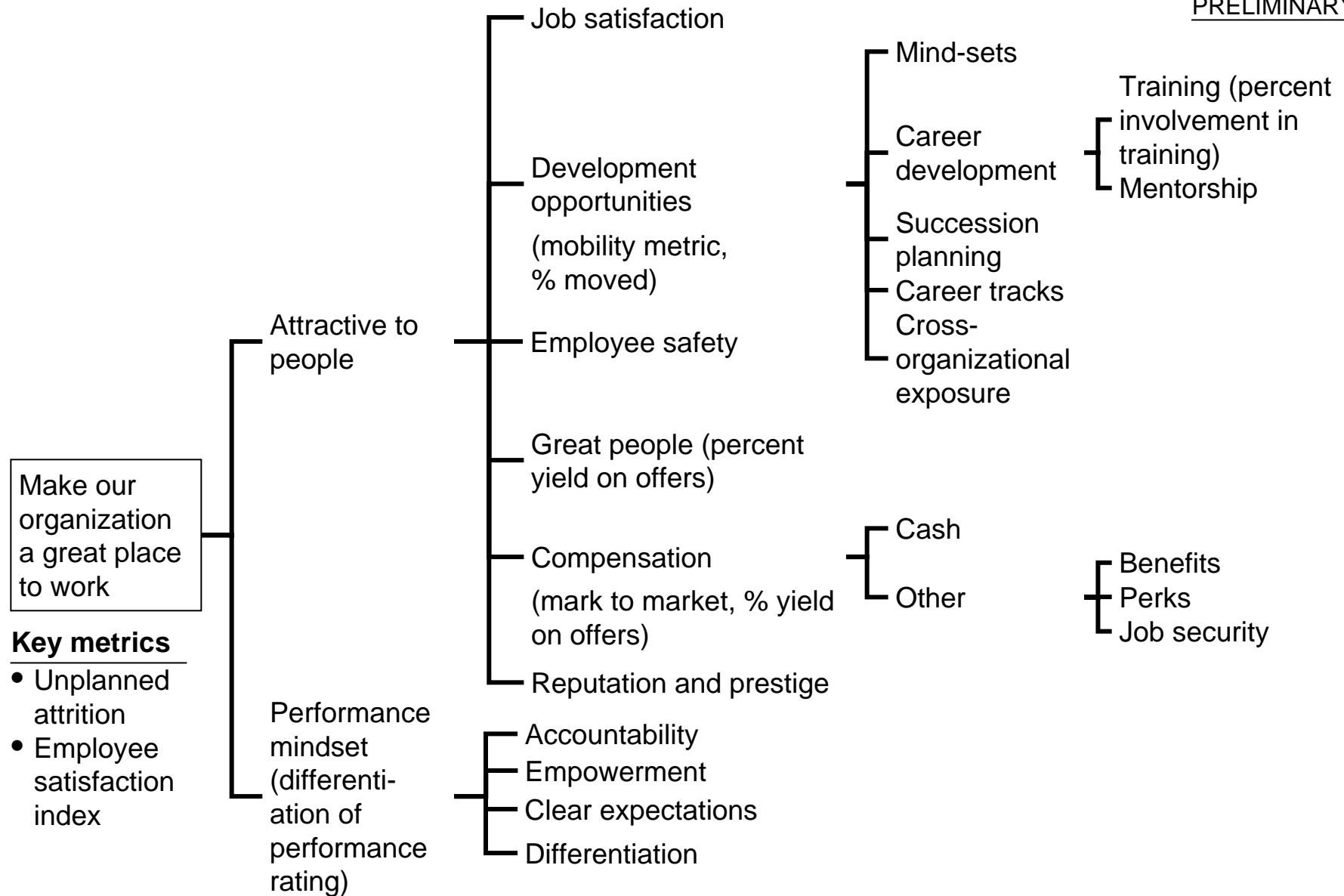
PRELIMINARY



MAKE OUR ORGANIZATION A GREAT PLACE TO WORK

2a

PRELIMINARY



WHAT ARE PERFORMANCE DASHBOARDS AND WHY ARE THEY USED?

2b

What is a performance dashboard?

- A performance dashboard is a visual representation of the overall health of an organization*

How is a performance dashboard developed and readied for use?

- Build a value tree to determine key drivers of value for organization
- Develop high-level organization-wide metrics from the identified value drivers
- Establish targets for the high-level metrics
- Develop metrics and associated targets for divisions, branches, and units

Why use a performance dashboard?

Dashboards allow organizations to:

- Monitor critical business processes and activities using metrics of business performance that trigger alerts when potential problems arise*
- Analyze the root cause of problems by exploring relevant and timely information from multiple perspectives and at various levels of detail*
- Manage people and processes to improve decisions, optimize performance and steer the organization in the right direction*

* "Performance Dashboards", Community Foundations of America, <http://www.givingnet.net/page33761.cfm>

NCDOT'S EXECUTIVE DASHBOARD PROVIDES A MEANS FOR GAUGING OVERALL ORGANIZATIONAL PERFORMANCE

2b

DRAFT

	Metrics	Comments
"Make our transportation network safer"	<ul style="list-style-type: none"> Fatal accident (incident) rates on NCDOT transportation network 	<ul style="list-style-type: none"> "Hard" numerical data for measuring performance of systems -i.e. various transit modes, safety operating procedures for employees Most state DOTs track traffic fatalities
"Make our transportation network move people and goods more efficiently"	<ul style="list-style-type: none"> Travel time Congestion (level of service) 	<ul style="list-style-type: none"> Indicator of system performance - actual vs. ideal travel time on transportation system Use average speed (operating) on representative sample sites for different tiers Ratings exists for reporting. Can compare NC vs. National congestion and then set goals On representative sample sites, determine when the peak congestion time is and how long it lasts
"Make our infrastructure last longer"	<ul style="list-style-type: none"> Existing system conditions <ul style="list-style-type: none"> Road Bridge Other Book value of transportation network 	<ul style="list-style-type: none"> Infrastructure currently being measured by Operations Provides a view of how maintenance activities and new construction affect the value of the network over time
"Make our organization a place that works well"	<ul style="list-style-type: none"> Delivery on schedule Delivery on budget 	<ul style="list-style-type: none"> Ideal metric for future measure is "% of projects, programs, and services completed on schedule and on budget for a given year", but it would require coordination between NCDOT divisions/departments Current measures are highways-focused, but should serve as guides for what could be tracked for alternative modes
"Make our organization a great place to work"	<ul style="list-style-type: none"> Employee satisfaction index Employee safety incidents 	<ul style="list-style-type: none"> Employee satisfaction can be gauged based on survey results. Easily tracked and shows trends. Currently being measured Department-wide and shows we care about the employees

MORE SPECIFICALLY, THE DASHBOARD METRICS WILL MEASURE QUANTITATIVE DATA THAT CAN BE LINKED TO PERFORMANCE (1/3)

2b

Dashboard metric	Definition of measure	Source of data	Comments
Fatal accident rates on NCDOT transportation network	<ul style="list-style-type: none"> Number of fatal accidents on the NCDOT transportation system per X miles traveled 	<ul style="list-style-type: none"> Kevin Lacey 	<ul style="list-style-type: none"> Federal standards exist for highways Allows for direct comparisons to other states
Travel time	<ul style="list-style-type: none"> Avg. speed limit per mile Frequency of service for buses, ferries, etc 	<ul style="list-style-type: none"> Kevin Lacey Kelly Damron 	<ul style="list-style-type: none"> Intended to gauge the effectiveness of travel on the transportation system
Congestion	<ul style="list-style-type: none"> Numerical indicator of level of service experienced at peak travel times 	<ul style="list-style-type: none"> Kevin Lacey Kelly Damron 	<ul style="list-style-type: none"> Based on NCHRP guidelines and/or sensor read-outs Intended to gauge ability to handle load on the system Need to meet with Kevin Lacey for available data How should alternative modes be handled? Need to performing mapping of levels of service to numerical values
Existing system conditions	<ul style="list-style-type: none"> Numerical indicator of level of service for roads Bridge sufficiency ratings 	<ul style="list-style-type: none"> Terry Canales 	<ul style="list-style-type: none"> Need to incorporate ratings for non-core portions of system Is there a way to use some sort of blended metric? Need to performing mapping of levels of service to numerical values

MORE SPECIFICALLY, THE DASHBOARD METRICS WILL MEASURE QUANTITATIVE DATA THAT CAN BE LINKED TO PERFORMANCE (2/3)

2b

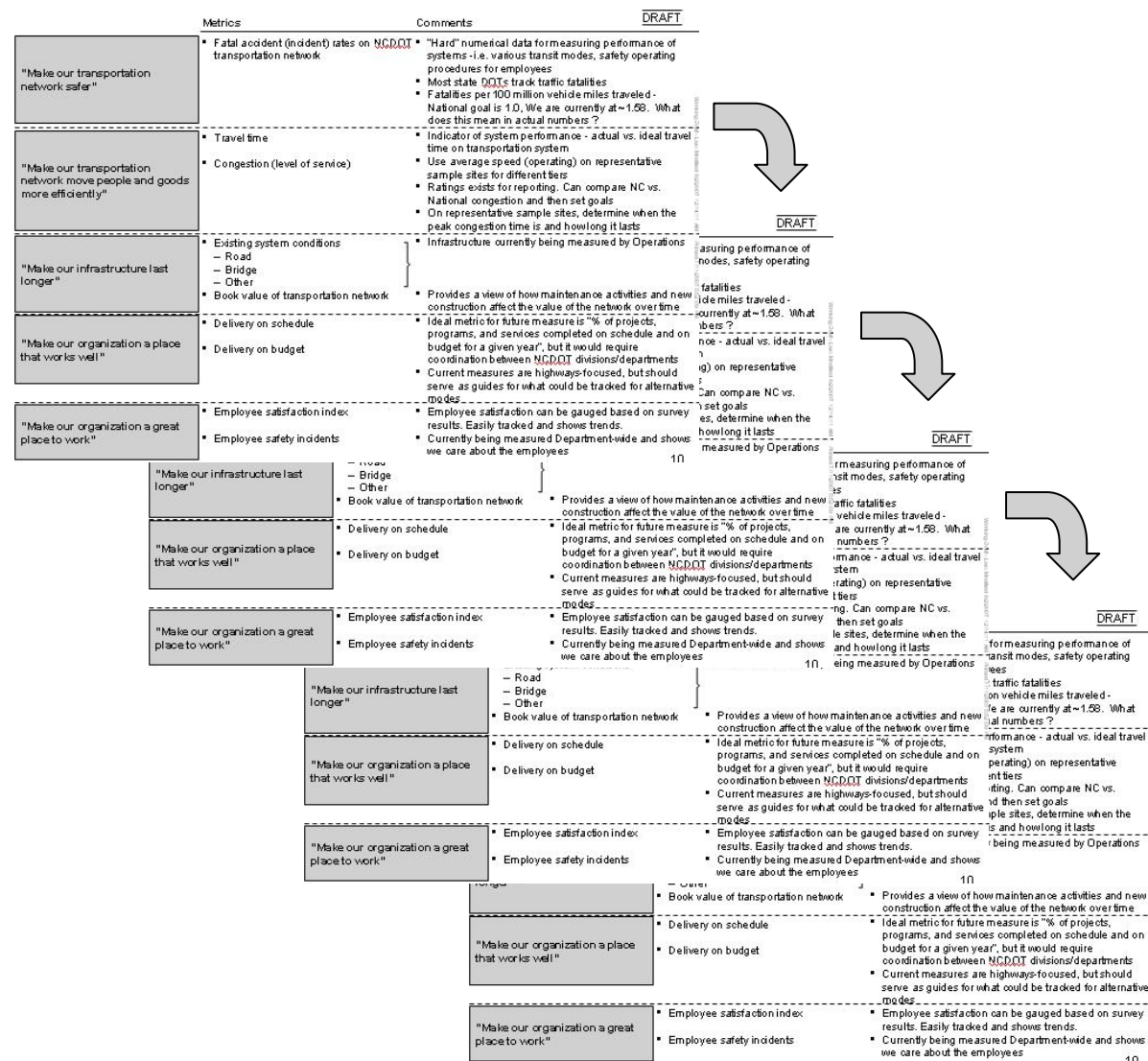
Dashboard metric	Definition of measure	Source of data	Comments
Book value of transportation network	<ul style="list-style-type: none"> Dollar value of assets in the NCDOT transportation network 	<ul style="list-style-type: none"> NCDOT Fiscal 	<ul style="list-style-type: none"> Need to find out who is responsible for the calculation of the book value of transportation network
Delivery on schedule	<ul style="list-style-type: none"> % of projects constructed on schedule in a given year <ul style="list-style-type: none"> – Calculated as [Projects completed by scheduled date] divided by [Total projects scheduled to be completed] % of projects let on schedule in a given year <ul style="list-style-type: none"> – Calculated as [Projects let by scheduled date] divided by [Total projects scheduled to be let] 	<ul style="list-style-type: none"> STaRS HiCAMS 	<ul style="list-style-type: none"> Ideal metric for future measure is “% of projects, programs, and services completed on schedule for a given year”, but it would require coordination between NCDOT divisions/departments Current measures are highways-focused, but should serve as guides for what could be tracked for alternative modes
Employee safety incidents	<ul style="list-style-type: none"> Number of safety incidents involving NCDOT staff while on duty 	<ul style="list-style-type: none"> Safety and Loss Control (Bob Andrews) 	<ul style="list-style-type: none"> The given measure is only preliminary, pending a discussion with Bob Andrews about what data he tracks about employee safety incidents

MORE SPECIFICALLY, THE DASHBOARD METRICS WILL MEASURE QUANTITATIVE DATA THAT CAN BE LINKED TO PERFORMANCE (3/3)

2b

Dashboard metric	Definition of measure	Source of data	Comments
Delivery on budget	<ul style="list-style-type: none"> • % of projects completed on budget in a given year <ul style="list-style-type: none"> – Calculated as [Projects completed on budget set in TIP] divided by [Total projects completed] • % of projects let on budget in a given year <ul style="list-style-type: none"> – Calculated as [Projects let on budget set in TIP] divided by [Total projects let] 	<ul style="list-style-type: none"> • STaRS • HiCAMS 	<ul style="list-style-type: none"> • Ideal metric for future measure is “% of projects, programs, and services completed on budget for a given year” , but it would require coordination between NCDOT divisions/departments • Current measures are highways-focused, but should serve as guides for what could be tracked for alternative modes
Employee engagement index	<ul style="list-style-type: none"> • Numerical index of employee engagement, as determined by survey results 	<ul style="list-style-type: none"> • NCDOT employee survey (to be developed and issued later) 	<ul style="list-style-type: none"> • Survey to be issued at the same time each year to account for seasonal changes in employee moods • Survey questions must be general enough to include all DOT employees, but specific enough to provide productive insights

METRICS WILL CASCADE DOWNWARD FROM THE EXECUTIVE DASHBOARD TO THE DIVISIONS, BRANCHES, AND UNITS OF NCDOT



- Each cascaded dashboard should be both relevant to the level measured and build upward toward the level above it
- All metrics on the Executive dashboard and the division, branch, and unit dashboards will be linked to the NCDOT vision and goals

ADDITIONAL DASHBOARDS WILL BE DEVELOPED FOR ALL BRANCHES AND UNITS

PRELIMINARY
EXAMPLE

PERFORMANCE METRICS FOR DIVISION ENGINEERS

DRAFT

Working Draft - Last Modified 8/1/2007 6:48:42 PM Printed 8/1/2007 8:48:19 AM

	Metrics	Definition of measure/Comments
"Make our transportation network safer"	<ul style="list-style-type: none"> Implementation of Division Work Zone Safety Program Improve Level of Service of Safety Features throughout Division 	<ul style="list-style-type: none"> # of issues identified per Work Zone Safety Audit report Avg level of service (A-F) on MCAP items related to safety such as shoulder drop-offs, guardrail, sight distance, brush & tree control, clogged drains (spread), etc.
"Make our transportation network move people and goods more efficiently"	<ul style="list-style-type: none"> Enhance mobility on Strategic Highway Corridor Maintain operational efficiency on traffic control devices throughout Division, institute information sharing systems that reduce congestion and efficiently manage incidents throughout Division Access mgmt throughout the Division 	<ul style="list-style-type: none"> Average operating speed on portions of Strategic Highway Corridor that run through Division Travel time reliability- standard deviation of avg. commuter time in selected urban areas; Avg. # of minutes from incident to all lanes open; Avg. # of minutes from incident to TMS data input Number of driveway permits issued in compliance with Policy on Street & Driveway Access Policy
"Make our infrastructure last longer"	<ul style="list-style-type: none"> Level of service of Division-wide infrastructure Quality assurance and control during construction 	<ul style="list-style-type: none"> Level of service (A-F) of Division-wide infrastructure <ul style="list-style-type: none"> Maintenance Condition Survey score Bridge Condition Survey Score Pavement Condition Survey Score MCAP Construction Quality Index
"Make our organization a place that works well"	<ul style="list-style-type: none"> Projects managed, administered, and constructed on schedule and on budget Pave roads efficiently HUB/SBE/WBE/MBE/DBE participation/opps Stakeholder interaction 	<ul style="list-style-type: none"> % of projects managed/administered by Divisions constructed on schedule and on budget % of DDL projects (& other programs) let on schedule and on budget Miles paved per dollar spent on paving % of solicitations sent to DBEs, etc. % of bids received from DBEs, etc. % of contract dollars awarded to DBEs, etc. Customer survey scores (public, partners, etc.)
"Make our organization a great place to work"	<ul style="list-style-type: none"> Employee Safety Employee Satisfaction Recruiting, developing and retaining employees 	<ul style="list-style-type: none"> Number of incidents, lost work days, worker's comp claims Employee satisfaction survey composite score % vacancy rate

EXAMPLE: PERFORMANCE METRICS FOR DIVISION ENGINEERS

DRAFT

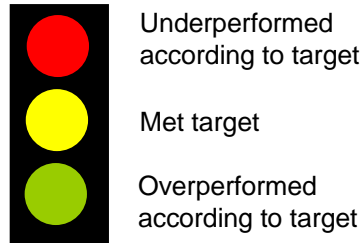
	Metrics	Definition of measure/Comments
“Make our transportation network safer”	<ul style="list-style-type: none"> • Implementation of Division Work Zone Safety Program • Improve Level of Service of Safety Features throughout Division 	<ul style="list-style-type: none"> • # of issues identified per Work Zone Safety Audit report • Avg level of service (A-F) on MCAP items related to safety such as shoulder drop-offs, guardrail, sight distance, brush & tree control, clogged drains (spread), etc.
“Make our transportation network move people and goods more efficiently”	<ul style="list-style-type: none"> • Enhance mobility on Strategic Highway Corridor • Maintain operational efficiency on traffic control devices throughout Division, institute information sharing systems that reduce congestion and efficiently manage incidents throughout Division • Access mgmt throughout the Division 	<ul style="list-style-type: none"> • Average operating speed on portions of Strategic Highway Corridor that run through Division • Travel time reliability- standard deviation of avg. commuter time in selected urban areas; Avg. # of minutes from incident to all lanes open; Avg. # of minutes from incident to TIMS data input • Number of driveway permits issued in compliance with Policy on Street & Driveway Access Policy
“Make our infrastructure last longer”	<ul style="list-style-type: none"> • Level of service of Division-wide infrastructure • Quality assurance and control during construction 	<ul style="list-style-type: none"> • Level of service (A-F) of Division-wide infrastructure <ul style="list-style-type: none"> – Maintenance Condition Survey score – Bridge Condition Survey Score – Pavement Condition Survey Score • MCAP Construction Quality Index
“Make our organization a place that works well”	<ul style="list-style-type: none"> • Projects managed,administered, and constructed on schedule and on budget • Pave roads efficiently • HUB/SBE/WBE/MBE/DBE participation/opps • Stakeholder interaction 	<ul style="list-style-type: none"> • % of projects managed/administered by Divisions constructed on schedule and on budget • % of DDL projects (& other programs) let on schedule and on budget • Miles paved per dollar spent on paving • % of solicitations sent to DBEs, etc. • % of bids received from DBEs, etc. • % of contract dollars awarded to DBEs, etc. • Customer survey scores (public, partners, etc.)
“Make our organization a great place to work”	<ul style="list-style-type: none"> • Employee Safety • Employee Satisfaction • Recruiting, developing and retaining employees 	<ul style="list-style-type: none"> • Number of incidents, lost work days, worker's comp claims • Employee satisfaction survey composite score • % vacancy rate

EACH HIGH-LEVEL DASHBOARD METRIC WILL BE TRACKED OVER TIME TO OBSERVE TRENDS IN PERFORMANCE

Examples of metric tracking methods

ILLUSTRATIVE

"Stoplight" visual ratings of performance as compared to established targets



Strategic goal: "Make our transportation network safer"
Performance metric: xxxxxx

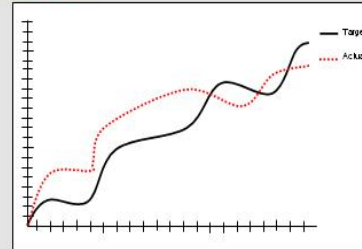
Description: xxxxxx xxxxxx xxxxxx xxxxxx xxxxxx xxxxxx
xxxxxxxx xxxxxx xxxxxx xxxxxx xxxxxx xxxxxx
xxxxxxxx xxxxxx xxxxxx xxxxxx xxxxxx xxxxxx

Unit of measure: xxxxx xxxxx xxxxx

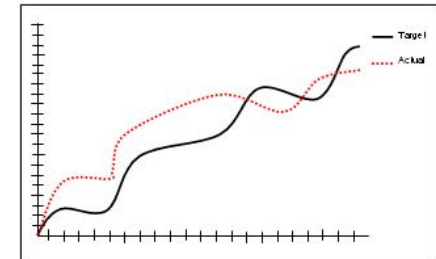
Target:
Green light - xxxxx
Yellow light - xxxxx
Red light - xxxxx

Historical performance:
2006 - xxxxx
2005 - xxxxx
2004 - xxxxx

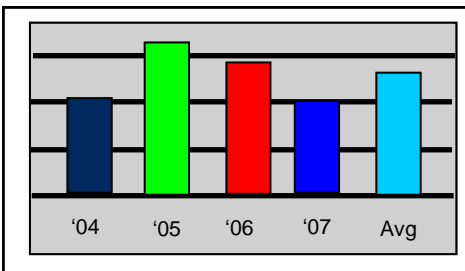
Note: xxxxxx xxxxxx xxxxxx xxxxxx xxxxxx xxxxxx
xxxxxxxx xxxxxx xxxxxx xxxxxx xxxxxx xxxxxx



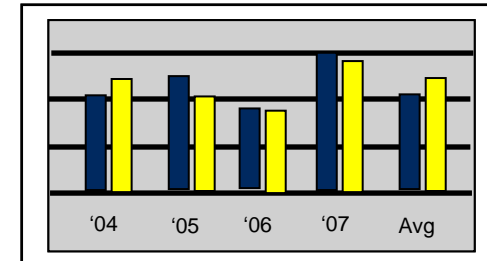
Year-over-year comparisons of actual performance versus targets



Comparisons between current year and historical performance

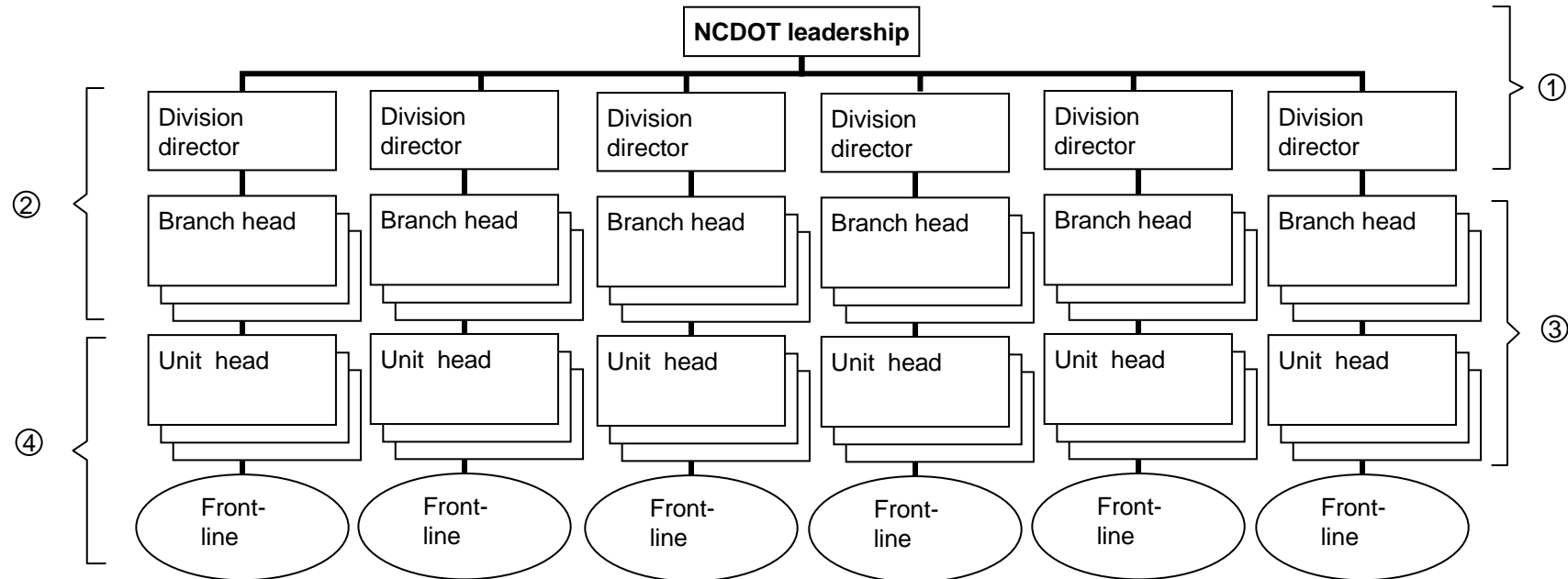


Comparison between North Carolina performance and US national averages



TO GET FULL VALUE FROM ITS NEW PERFORMANCE MANAGEMENT SCHEME, NCDOT WILL HOLD A SERIES OF PERFORMANCE REVIEWS AT SEVERAL LEVELS THROUGHOUT THE ORGANIZATION

PRELIMINARY



Nature of review	Timing	Participants	Duration	Objectives
① NCDOT organizational review	Quarterly	<ul style="list-style-type: none"> NCDOT leadership (lead) Division directors 	60-90 minutes	<ul style="list-style-type: none"> Review status across NCDOT divisions Ensure overall alignment with NCDOT mission and goals
② Division review	Monthly	<ul style="list-style-type: none"> Division director (lead) Branch heads 	90-120 minutes	<ul style="list-style-type: none"> Review performance of branches within the division Idea sharing across branches Alignment with division goals
③ Branch review	Monthly (staggered with division review)	<ul style="list-style-type: none"> Branch head (lead) Unit heads 	120-150 minutes	<ul style="list-style-type: none"> Review performance of units within the branch Idea sharing across units Alignment with branch goals
④ Unit review	Bi-weekly or weekly (as needed)	<ul style="list-style-type: none"> Unit head (lead) Project leads Frontline staff 	Varies	<ul style="list-style-type: none"> Review on the ground performance and progress Inform frontline staff on NCDOT direction

Source: TMT and McKinsey team analysis

NCDOT ORGANIZATIONAL PERFORMANCE REVIEW MEETING

AGENDA

3b

PRELIMINARY

Proposed frequency: Quarterly

Participants NCDOT leadership, Divisional directors

Duration 60-90 minutes

Objective

- Review performance of NCDOT and across its divisions
- Ensure overall alignment with NCDOT mission and goals

Agenda

Time Minutes	Topic	Details
0:00-0:10	Introduction	<ul style="list-style-type: none"> • Review NCDOT vision and goals • Express importance of open, two-way communication • Maintain focus on drivers of value for organization (i.e., personal agendas set aside)
0:10-0:20	Review NCDOT performance	<ul style="list-style-type: none"> • Review overall performance against metrics for NCDOT organization • Discuss any trends in overall performance • Discuss progress on performance since previous review
0:20-0:50	Review performance of divisions	<ul style="list-style-type: none"> • Perform a division-by-division review of performance to metrics • Discuss progress on performance since previous review • Understand causes of underperformance • Solicit feedback or advice on particular areas of need
0:50-1:15	Discuss action plans	<ul style="list-style-type: none"> • Problem solve as a group on specific action plans for each division
1:15-1:25	Review dashboard	<ul style="list-style-type: none"> • Review dashboard metrics and targets to determine whether either should be modified
1:25-1:30	Wrap-up	<ul style="list-style-type: none"> • Review any action items

Source: TMT and McKinsey team analysis

DIVISION-LEVEL PERFORMANCE REVIEW MEETING AGENDA

3b

PRELIMINARY

Proposed frequency: Monthly

Participants Divisional directors, Branch heads

Duration 90-120 minutes

Objective

- Review performance of division and across its branches
- Ensure overall alignment with NCDOT mission and goals

Agenda

Time		
Minutes	Topic	Details
0:00-0:10	Introduction	<ul style="list-style-type: none">• Review NCDOT vision and goals• Express importance of open, two-way communication• Maintain focus on drivers of value for organization (i.e., personal agendas set aside)
0:10-0:25	Review division performance	<ul style="list-style-type: none">• Review overall performance against metrics for division and NCDOT• Discuss any trends in overall performance• Discuss progress on performance since previous review
0:25-1:15	Review performance of branches	<ul style="list-style-type: none">• Perform a branch-by-branch review of performance to metrics• Discuss progress on performance since previous review• Understand causes of underperformance• Solicit feedback or advice on particular areas of need
1:15-1:45	Discuss action plans	<ul style="list-style-type: none">• Problem solve as a group on specific action plans for each branch
1:45-1:55	Review divisional dashboard	<ul style="list-style-type: none">• Review divisional dashboard metrics and targets to determine whether either should be modified
1:55-2:00	Wrap-up	<ul style="list-style-type: none">• Review any action items

Source: TMT and McKinsey team analysis

BRANCH PERFORMANCE REVIEW MEETING AGENDA

3b

PRELIMINARY

Proposed frequency: Monthly

Participants Branch lead, Unit heads

Duration 120-150 minutes

Objective

- Review performance of branch and across its units
- Ensure overall alignment with NCDOT mission and goals

Agenda

Time Minutes	Topic	Details
0:00-0:10	Introduction	<ul style="list-style-type: none"> • Review NCDOT vision and goals • Express importance of open, two-way communication • Maintain focus on drivers of value for organization (i.e., personal agendas set aside)
0:10-0:25	Review branch performance	<ul style="list-style-type: none"> • Review overall performance against metrics for branch • Discuss any trends in overall performance • Discuss progress on performance since previous review
0:25-1:25	Review performance of units	<ul style="list-style-type: none"> • Perform a unit-by-unit review of performance to metrics • Discuss progress on performance since previous review • Understand causes of underperformance • Solicit feedback or advice on particular areas of need
1:25-1:55	Discuss action plans	<ul style="list-style-type: none"> • Problem solve as a group on specific action plans for each unit
1:55-2:05	Review branch-level dashboard	<ul style="list-style-type: none"> • Review branch-level dashboard metrics and targets to determine whether either should be modified
2:05-2:10	Wrap-up	<ul style="list-style-type: none"> • Review any action items

Source: TMT and McKinsey team analysis

UNIT PERFORMANCE REVIEW MEETING AGENDA

3b

PRELIMINARY

Proposed frequency: Bi-weekly or weekly (as needed)

Participants Unit head, direct reports (and other lower level staff, as needed)

Duration Varies (agenda below is an illustrative example)

Objective

- Review performance of unit and its individual lower level operations
- Ensure overall alignment with NCDOT mission and goals

Agenda

Time Minutes	Topic	Details
0:00-0:10	Introduction	<ul style="list-style-type: none"> • Review NCDOT vision and goals • Express importance of open, two-way communication • Maintain focus on drivers of value for organization (i.e., personal agendas set aside)
0:10-0:25	Review unit performance	<ul style="list-style-type: none"> • Review overall performance against metrics for unit • Discuss any trends in overall performance • Discuss progress on performance since previous review
0:25-1:45	Review performance of project/lower-level staff	<ul style="list-style-type: none"> • Perform a review of performance to metrics for direct reports • Discuss progress on performance since previous review • Understand causes of underperformance • Solicit feedback or advice on particular areas of need
1:45-2:15	Discuss action plans	<ul style="list-style-type: none"> • Problem solve as a group on specific action plans for direct reports
2:15-2:25	Review unit-level dashboard	<ul style="list-style-type: none"> • Review unit-level dashboard metrics and targets to determine whether either should be modified
2:25-2:30	Wrap-up	<ul style="list-style-type: none"> • Review any action items

Source: TMT and McKinsey team analysis

FRONTLINE MEETINGS ARE ALSO AN IMPORTANT PART OF THE EQUATION

3b

EXAMPLE

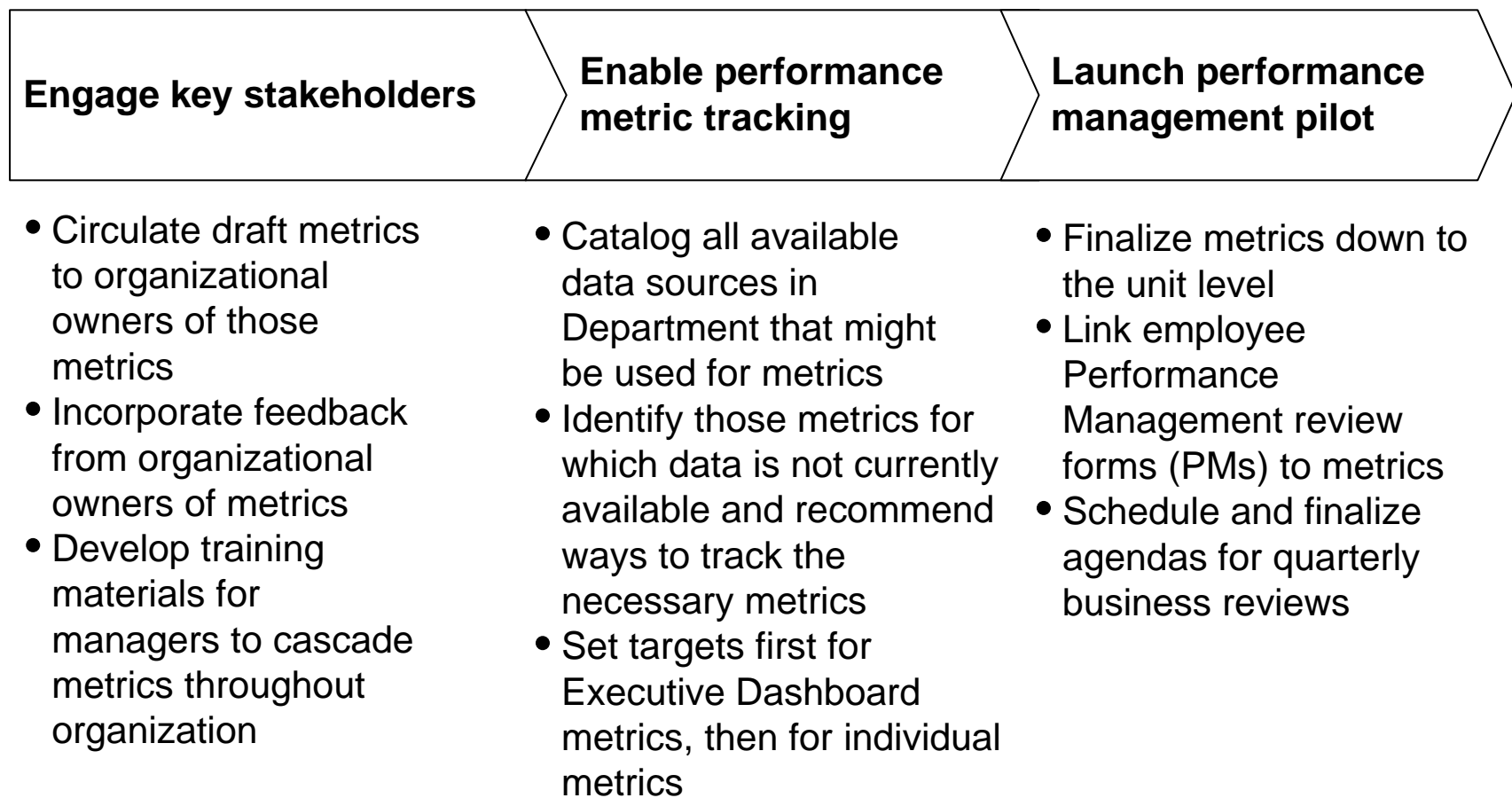
Daily start of shift meeting	Timing: Daily at start of shift
Purpose: To review the last shift's performance and plan for the coming shift	
Agenda <ol style="list-style-type: none"> 1. Establish manning <ul style="list-style-type: none"> – Check absence and need for cover – Assign jobs/line locations for the shift 2. Review team metrics <ul style="list-style-type: none"> – Identify performance gaps & discuss root causes – Highlight any special actions needed during shift to correct or contain gaps – Raise issues where necessary for problem resolution or improvement actions 3. Summarize expectations for the shift <ul style="list-style-type: none"> – Highlight priorities for the shift – Ensure everyone is clear on any activities they have been assigned – Ensure everyone is informed about any special activities (e.g., training) 	Attendees <p>Construction Team Manager All Team Members Maintenance Support</p> <hr/> Input <ul style="list-style-type: none"> • Line metric data • Safety data – details of any incidents and relevant bulletins • Priorities from previous evening area meeting • Information about special activities scheduled for the shift
Meeting rules <ul style="list-style-type: none"> • Update board with metrics prior to meeting • This is not a problem solving meeting – agree to take problems/improvement ideas off line 	

“CONSTRUCTIVE TENSION” IN PERFORMANCE INTERACTIONS

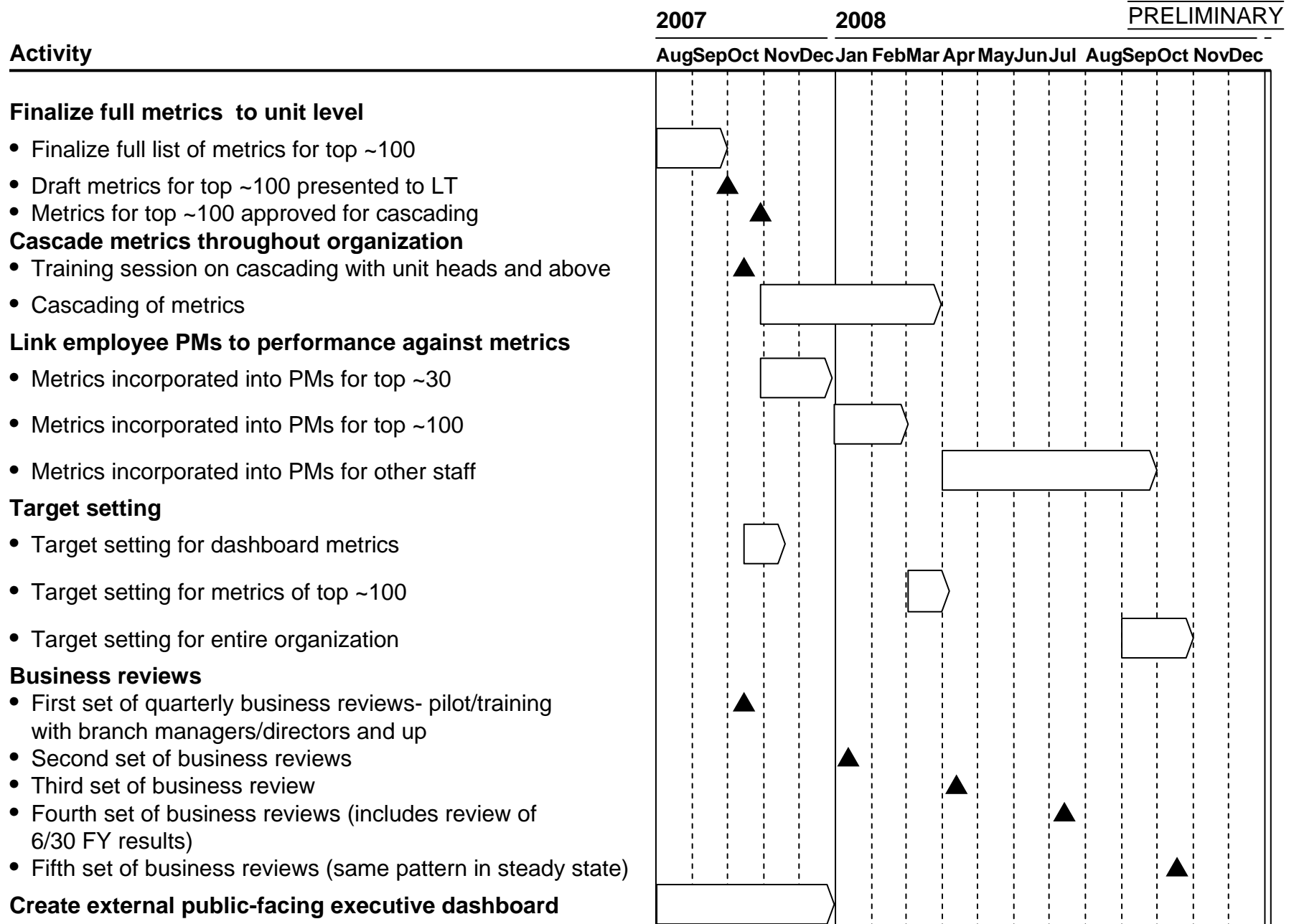
3c

	This . . .	Not this . . .
Dynamics	<ul style="list-style-type: none">• Intense working session• Scrutinizing; evaluative posture• Forward-looking orientation	<ul style="list-style-type: none">• Formal, rubber-stamping presentation• Judgmental; critical, defensive attitude• Focus on past activities
Content	<ul style="list-style-type: none">• Disciplined review of specific, actionable performance improvement plans• Focus on root causes and on what the unit can control/influence• Implications of planned actions on other units' performance• Evaluation of unit's performance linked to individuals' actions and responsibility	<ul style="list-style-type: none">• Unclear relationship between items discussed and performance• Focus on externalities and items irrelevant to performance• Focus strictly on own unit's performance• Limited accountability for performance results

ONCE THE METRICS HAVE BEEN FINALIZED AND MANAGEMENT METHODOLOGY ESTABLISHED, NCDOT MUST ROLL OUT ITS NEW PERFORMANCE MANAGEMENT SCHEME



PERFORMANCE METRICS AND MANAGEMENT IMPLEMENTATION PLAN

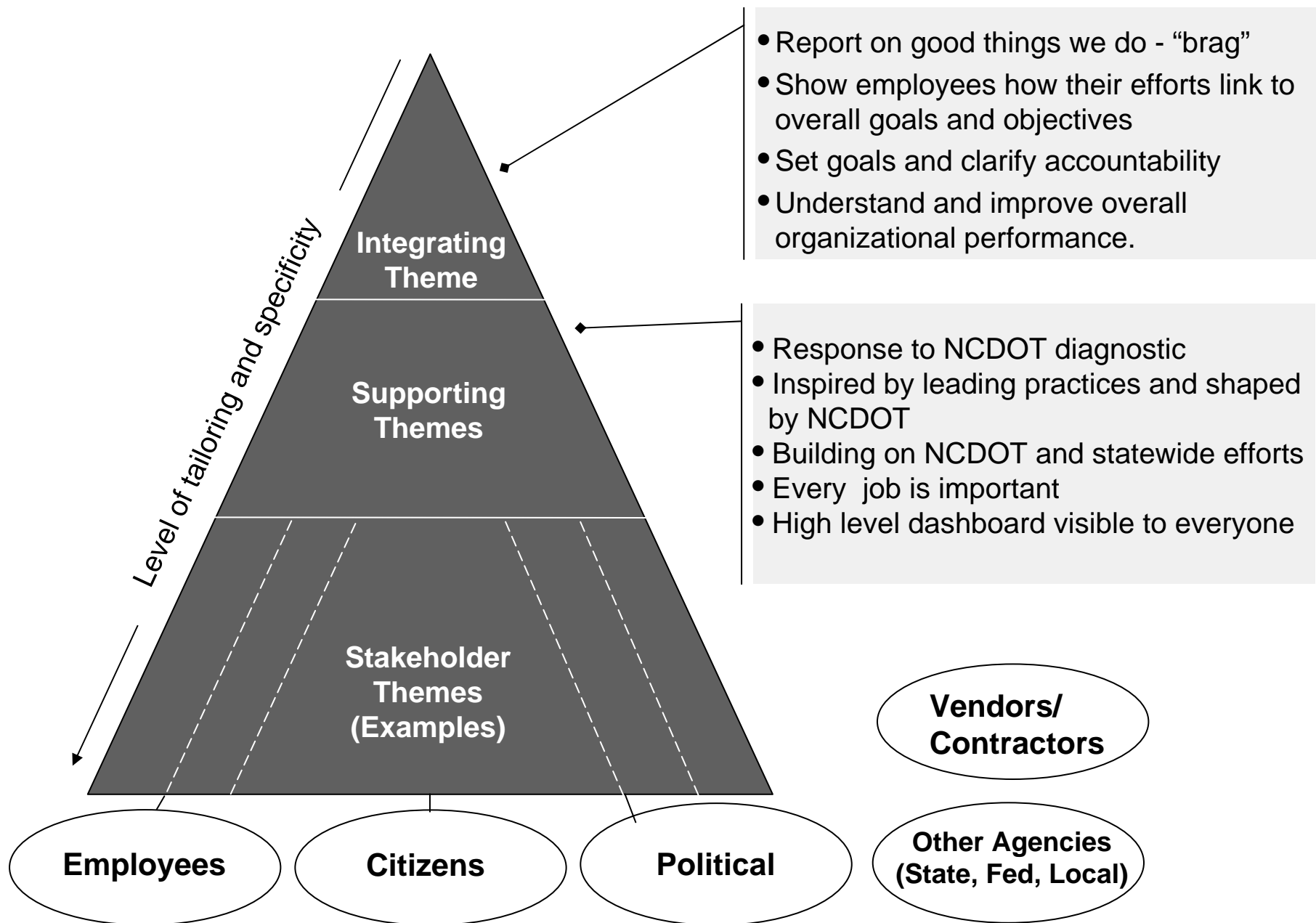


PERFORMANCE METRICS AND MANAGEMENT OPEN ISSUES

	Issue	Implication
Develop performance metrics	Full set of division, branch, and unit metrics must be drafted and finalized	Timing and stakeholder availability issues that have served as bottlenecks must be resolved to meet milestone dates
	Targets must be set and data sources must be determined for performance metrics	These activities are core to metrics-based management, but cannot be addressed until metrics are finalized
	Process for reviewing and revising metrics and targets must be developed	Performance Metrics and Strategic Planning teams must incorporate a metrics review process into new strategic planning cycle
Develop metrics management methodology	Management reviews must be organized, scheduled, and held routinely	Without a structured set of reviews, the metrics and associated targets will yield little benefit for NCDOT
	Constructive tension should be a part of performance management reviews, but are not a feature of current NCDOT culture	Work must be done in advance of roll-out to ensure adoption of this mindset across NCDOT
Develop roll-out plan	OSP will play a major role in plan for roll-out of new performance management scheme	Dependence on OSP capability and availability may slow the development and implementation of roll-out plan
	New IT system will likely be needed to facilitate performance metric tracking	Potential for confusion/conflicts around roles and responsibilities for design and implementation of new IT system

'STORY' PYRAMID FOR PERFORMANCE METRICS AND MANAGEMENT TEAM:

4



STAKEHOLDER IMPACT TIMELINE

Date	Stakeholder	Objective	Basic Message
Sept 07	Employees	Gather Input	What metrics are relative to your Division/Branch/Unit?
Nov 07	Employees	Disseminate	These are your metrics - Now they must be cascaded down through your division/branch/unit
Mar 08	Employees	Gather Input	Receive metrics from div/brnch/units
June 08	Contractors/ Vendors	Gather Input	Here are DOT metrics. What metrics are relative to your business with DOT.
Aug 08	Contractors/ Vendors	Gather Input	Receive input from contractors
Sept 08	Contractors/ Vendors	Disseminate	Here are your metrics relative to business with DOT.
Jan 08	Political, Agencies, Citizens	Disseminate	Here are DOT and contractor performance metrics

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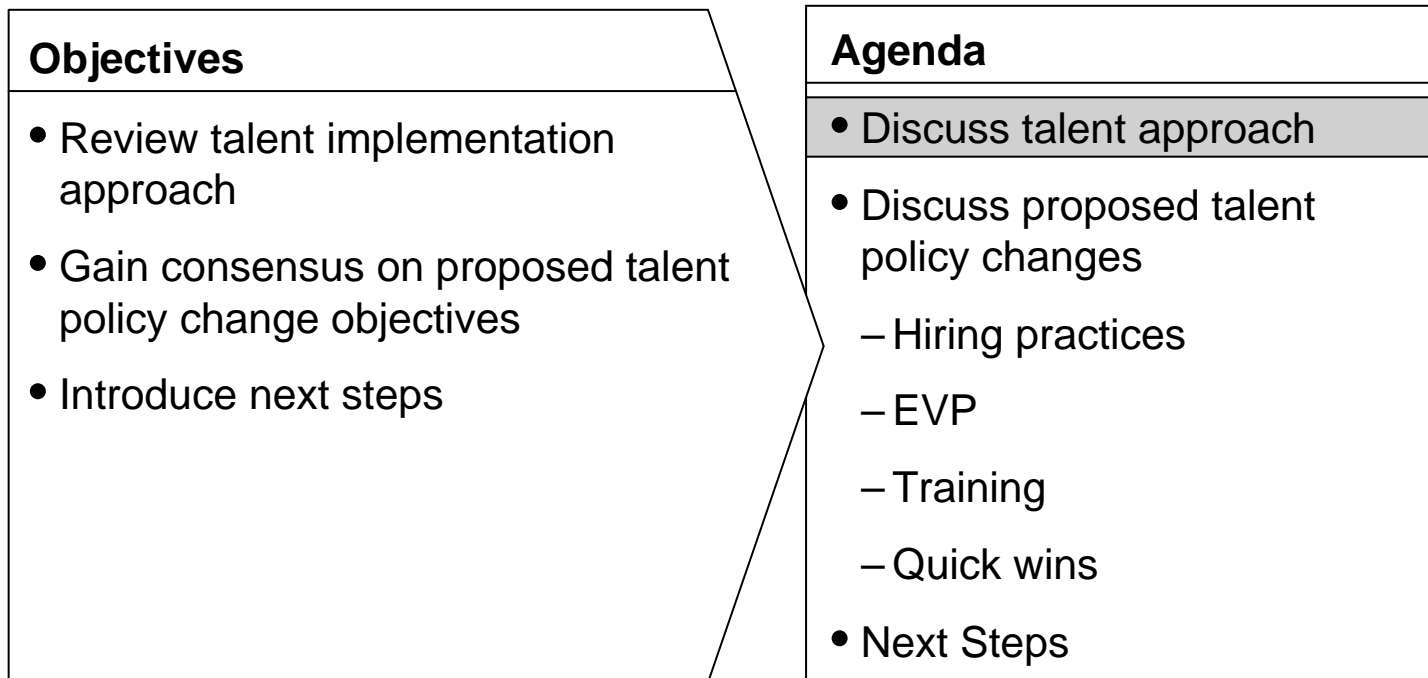
Talent Management Policy Recommendations



TMT Meeting
August 2, 2007

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TODAY'S DISCUSSION



THE TALENT TEAM HAS PRIORITIZED 8 RECOMMENDATIONS FOR NEAR-TERM IMPLEMENTATION

Key Elements

- | | |
|---|---|
| <p>1 Define talent strategy</p> | <ul style="list-style-type: none"> • Identify and plan for talent and capability needs in organization • Focus resources on top 100-250 leadership positions and assets |
| <p>2 Revise hiring practices</p> | <ul style="list-style-type: none"> • Define alternatives to posting process • Streamline qualification and approval process to allow greater hiring manager discretion |
| <p>3 Define and improve employee value proposition</p> | <ul style="list-style-type: none"> • Define and communicate new and existing development programs (e.g. career tracks, training, mobility planning) • Modifying salary policies |
| <p>4 Revamp performance review</p> | <ul style="list-style-type: none"> • Develop performance review system and tool with two levers of evaluation (metrics and potential/leadership assessment/competencies) • Improve ability to manage rewards and consequences (non-financial rewards, performance pay, consequences for underperformance, feed into goal setting) • Train managers on performance feedback |
| <p>5 Revamp training program to strategically deploy resources</p> | <ul style="list-style-type: none"> • Continually assess organizational training needs based on vision, goals, and strategy • Deploy training resources based on org needs and most effective training formats for development segments |
| <p>6 Develop employee career tracks</p> | <ul style="list-style-type: none"> • Develop system to define goals for role and career • Define technical, functional, and managerial career tracks • Develop assessment and dev't tools to enable process |
| <p>7 Develop system for leadership planning</p> | <ul style="list-style-type: none"> • Define key 100-250 roles in organization that drive vision/goals • Develop system to identify high potential employees and build their capabilities to fill these positions (heavy mobility) |
| <p>8 Institute priority quick wins</p> | <ul style="list-style-type: none"> • Wave 1: eliminate mandated vacancy rate, increase funding for out of state recruiting, modify qualification process, reduce approval steps for personnel packages, modify 10% rule, reinstate PE Bonus, implement clerical equity study |

Source: Talent Management Team Analysis

PROPOSED AREAS FOR OSP AND NCDOT COLLABORATION

Recommendation	Approach	Proposed team launch	TMT lead	NCDOT HR lead	Lead OSP advisor	Ideal number of additional OSP team members*
① Define talent strategy framework	Outline of framework and resources needed	September	Stephanie King	Herb Henderson	TBD per OSP	~1
② Revise hiring practices	High-level policy rec and implementation oversight	September	Teresa Pergerson	Angela Faulk	N/A	N/A
③ Define and improve EVP	High-level policy rec and implementation oversight	September	Stephanie King	Helen Dickens	TBD per OSP	~1
④ Revamp performance review	Design and implement in collaboration with OSP	August	T. Pergerson V. Barbour	H. Dickens	Lynn Summers	~2-4
⑤ Revamp training program	High-level policy rec and implementation oversight	January	Anthony Roper	Steve Shepherd	TBD per OSP	~1
⑥ Develop employee career tracks	Policy recommendation; design in collaboration	September	Anthony Roper	A. Faulk; A. Olive	TBD per OSP	~1
⑦ Develop leadership/succession planning	Design and implement in collaboration	September	Anthony Roper	Herb Henderson	TBD per OSP	~1
⑧ Institute priority quick wins	Develop and implement policy recommendations	August	Stephanie King	Herb Henderson	N/A	N/A

* Pending availability

TODAY'S DISCUSSION

Objectives	Agenda
<ul style="list-style-type: none">• Review talent implementation approach• Gain consensus on proposed talent policy change objectives• Introduce next steps	<ul style="list-style-type: none">• Discuss talent approach• Discuss proposed talent policy changes<ul style="list-style-type: none">– Hiring practices– EVP– Training– Quick wins• Next steps

OVERVIEW – OBJECTIVES AND METHODS FOR POLICY CHANGES

PRELIMINARY

	Objective(s)	Specific Proposed Changes
① Hiring	To enable NCDOT to onboard high quality talent efficiently, effectively, and in compliance with all applicable regulations	<ul style="list-style-type: none"> • Expand advertising for open positions • Simplify application process • Streamline qualification review • Restructure process
③ EVP	To allow NCDOT to recruit and retain the talent necessary to fulfill its vision and goals	<p>Evaluate EVP on a continual basis:</p> <ul style="list-style-type: none"> • Define EVP levers for key groups • Define what we currently offer • Improve what's missing • Develop method to communicate
⑤ Training	To effectively build organizational capabilities in priority areas	<p>Evaluate training on periodic basis</p> <ul style="list-style-type: none"> • Identify key capabilities and gaps • Design training programs • Develop clear metrics • Review and evaluate
⑧ Quick wins	To communicate with stakeholders that the talent transformation is serious and beneficial; to improve employee morale and gain buy-in; to remove explicit barriers to new talent processes and mind-sets	<ul style="list-style-type: none"> • Remove mandatory vacancy rate • Reinstate PE bonus • Remove 10% salary limitation • Reduce multi-level hiring • Implement mentorship program • Create plan to reinstate career planning

Source: Talent Management Team Analysis

② REVISE HIRING PRACTICES – OVERVIEW

PRELIMINARY

What is our future vision?			What should we do?
Now	vs.	Future/Best practice	
<ul style="list-style-type: none"> • Hires for open positions • Looks for talent in a few traditional sources • Uses recruiting as a screening tool • Uses multiple layers of approval to adequately comply with State regulations and mitigate risk • Hire based on “most qualified” classification 		<ul style="list-style-type: none"> • Taps many diverse pools of talent • Builds and ramps-up a “factory-like” capability to process potential employees (including analysis of bottlenecks in the process) • Ability to get high quality talent in the organization more efficiently and while in compliance with State regulations 	<ol style="list-style-type: none"> ① Expand advertising opportunities for vacant positions ② Simplify application process <ul style="list-style-type: none"> • Develop online application process • Require signatures only for applicants who are interviewed ③ Streamline qualification review <ul style="list-style-type: none"> • Only require applicant post to be divided into 2 categories: qualified and not qualified • Allow manager discretion to designate qualified applicants ④ Restructure process – 3 options <ul style="list-style-type: none"> • Hiring managers has full responsibilities • Decentralized HR representative • HR administration

Source: Talent Management Team Analysis

③ DEFINE AND IMPROVE EVP – OVERVIEW

PRELIMINARY

What is our future vision?			What should we do?
Now	vs.	Future/Best practice	<p>Evaluate EVP on a periodic basis:</p> <ol style="list-style-type: none"> ① Define EVP levers for key talent groups <ul style="list-style-type: none"> • Define primary recruiting groups • Conduct focus groups and interviews of internal and external employees in each group to determine key EVP levers ② Define what we currently offer to each group <ul style="list-style-type: none"> • Strength of benefits • Lifestyle profile • Connectivity with other employees ③ Improve what is missing <ul style="list-style-type: none"> • Evaluate salary levels and policies • Analysis of development opportunities ④ Develop method to communicate <ul style="list-style-type: none"> • Internally • Externally
<ul style="list-style-type: none"> • Deemed a “back-up employer” to new engineering hires • High attrition in critical areas of talent need (engineers in organization fewer than 5 years) • Only 30% of employees agree NCDOT attracts highly talented people to join the organization • Significant instances of missed hiring opportunities due to salary limitations 		<ul style="list-style-type: none"> • Aim to become “employer of choice” for critical talent • Identify talent segments organization needs to better recruit and retain now and in future • Develop unique and compelling “value propositions” for individual talent segments • Market value propositions effectively to recruit and retain high quality talent 	

Source: Talent Management Team Analysis

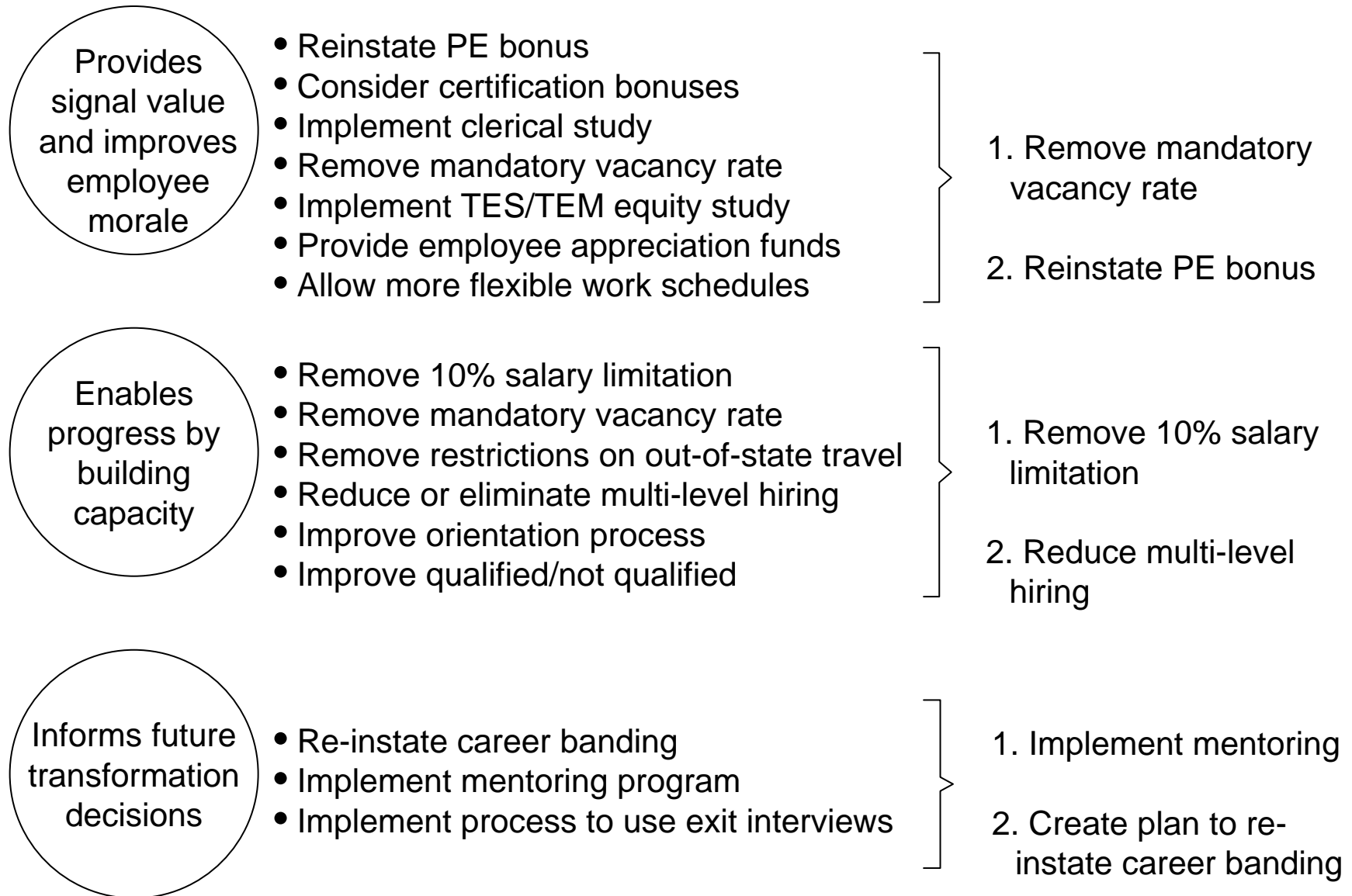
⑤ REVAMP TRAINING – OVERVIEW

PRELIMINARY

What is our future vision?			What should we do?
Now	vs.	Future/Best practice	
<ul style="list-style-type: none"> • Over-reliance on on-the-job management training • Limited commitment of resources to managerial training • Training resources deployed based on departmental budgets and requests rather than quantitative capabilities analyses • Training can be poorly timed or irrelevant 		<ul style="list-style-type: none"> • Targeted training programs at based on organization's critical tasks • Training is evaluated based on standard metrics of effectiveness • Content is delivered in parts and related specifically to existing knowledge • Training delivered just in time for development needs • Training is used as one lever in development process 	<p>Evaluate deployment of training resources on periodic basis:</p> <ol style="list-style-type: none"> ① Identify key capabilities and gaps by segment <ul style="list-style-type: none"> • Map organization's critical tasks • Assess organizational capabilities to perform critical tasks • Determine gaps ② Design training strategy and programs to fill gaps <ul style="list-style-type: none"> • Assess audiences, timing, and delivery options for programs • Design/outsource programs ③ Develop clear metrics for training evaluation ④ Implement and review <ul style="list-style-type: none"> • New programs in place/running • Programs evaluated based on metrics

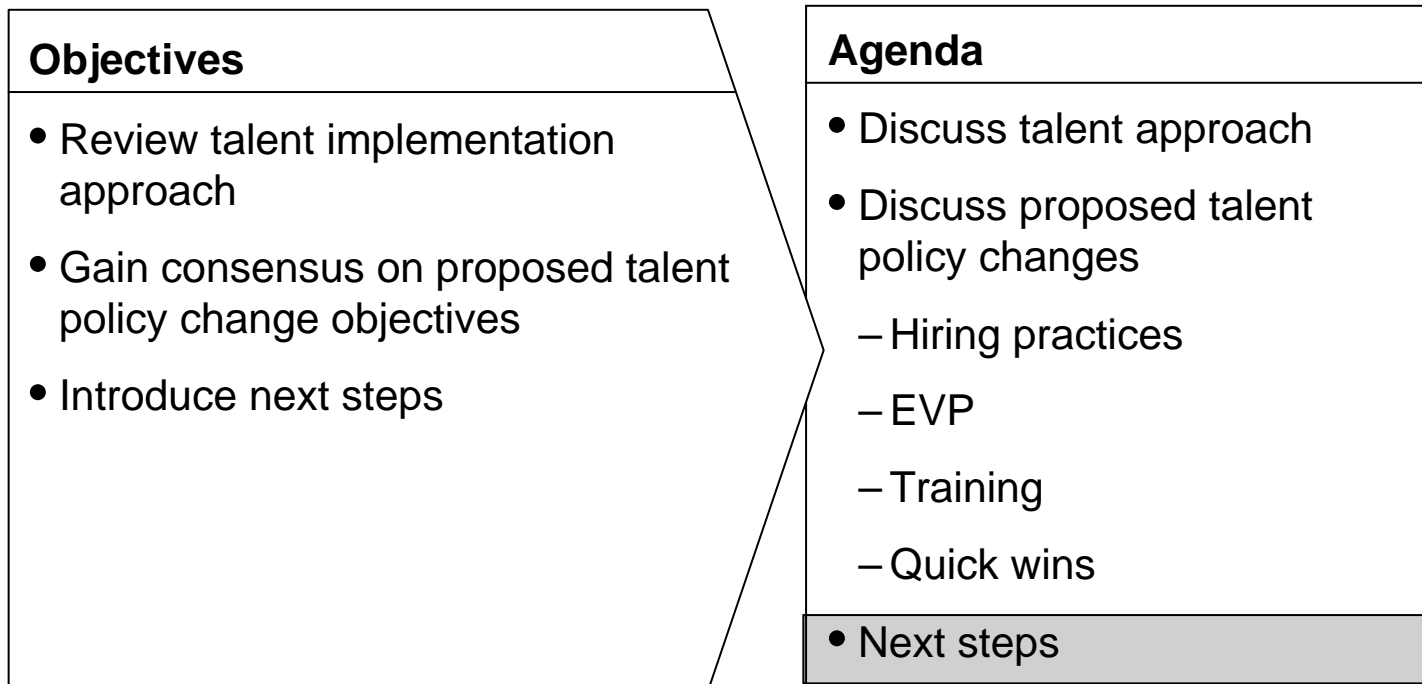
Source: Talent Management Team Analysis

8 INSTITUTE PRIORITY QUICK WINS – SELECTED PRIORITIES PRELIMINARY



Source: Talent Management Team Analysis

TODAY'S DISCUSSION



TALENT MANAGEMENT NEXT STEPS

- Continue to get feedback on recommendations, especially from Leadership Team
- Design roll-out plans for recommendations including ownership and responsibility (e.g. collaborations with HR, OSP, etc.)
- Create specific plans for hypothesis testing, piloting, and implementation schedules with deliverable and milestone dates
- Begin process designs for performance evaluations, leadership planning, and career tracks

Talent Management Team

High Level Approach Performance Management Review Process

September 4, 2007

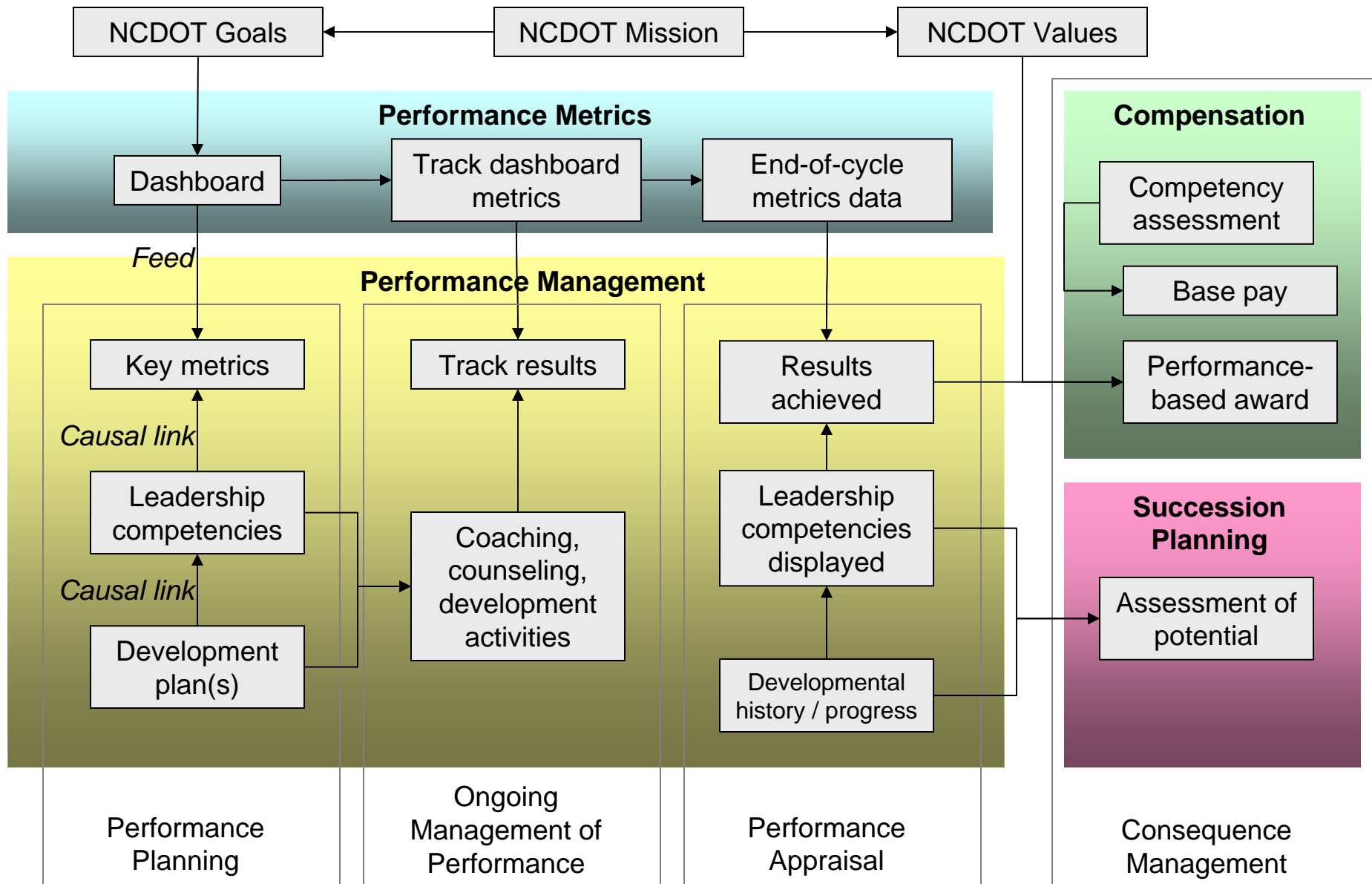
Performance Management for NCDOT Top 100+

- **Objective**
 - Revamp performance management process to better achieve department goals (in support of transformation effort)
- **Performance management**
 - More than just “doing appraisals”
 - A core management function – orchestrating talent and directing the work to deliver results required to achieve NCDOT goals
- **Where it fits**
 - Performance Management bridges Performance Metrics and Talent Management projects

Deliverables

- **Initially** by January, 2008 for top 100:
 - Defined process - (results based approach)
 - Forms/tools
 - Communication to users
 - Implement pilot program (with preliminary metrics)
- **Ultimately** by October, 2008 for entire organization:
 - Multiple processes defined for different job clusters
 - Forms / tools
 - Implementation plan (including training plan and resources)
 - Kick off implementation (with metrics)

NCDOT Performance Management Model for Top 100+



Performance Planning

- **Create work plan**

- Select the 5-9 most critical performance metrics for job
- For each metric, set goal to achieve during year
- Metric = an important, measurable outcome. Metrics have 2 components:
 - Measure: how the outcome will be measured (# of widgets produced per month)
 - Goal: value of measure that is our target (2500-2800)

- **Review leadership competencies**

- Initiate development plan to leverage strengths, address weaknesses

- **Note cause-effect chain**

- Development builds individual's competencies, competencies enable individual to achieve goals

Ongoing Management of Performance

- **At business level:**
 - Dashboards are periodically updated with fresh data
- **At individual level:**
 - Managers keep track of measures they “own”
 - Troubleshoot, correct course
 - Execute development plans
 - Boss coaches to facilitate development, counsels re: adherence to values
 - Note: This is MGMT 101

Performance Appraisal

- **Results:**

- Collect year-end metrics data
- Assess results achieved relative to goals defined in work plan
- Determine overall appraisal rating
- Values - Adjust appraisal downward in case of non-adherence to values

- **Competencies:**

- Review leadership strengths and weaknesses

Consequence Management

- You met, exceeded, or did not meet your goals. In doing so, you adhered to or did not adhere to NCDOT values. You displayed or did not display leadership competencies. So what?
- Two sets of consequences:
 - Compensation – tying pay to performance
 - Succession – developing skills needed for future roles

Compensation

- **Appraisal (performance management process)**
 - Determines performance-based award (if permitted)
 - Appraisal driven solely by results achieved (adjusted downward for non-adherence to values)
- **Competency assessment (career banding process)**
 - Determines base salary
- Appraisal and competency assessment are separate (but parallel) processes conducted at same time

Succession Planning

- Talent review uses information from appraisal:
 - Performance in current role – results achieved
 - Leadership competencies displayed
 - Developmental history
- Bases assessment of potential on data, from leadership team's (broader) perspective

Work Plan and Appraisal Form (1)

April 1, 2008 - March 31, 2009									
Owner: R Employee				Position: Division Engineer					
Performance Metrics				Quarterly Progress				Year End	
	Measure	Expectation	Weight	I	II	III	IV	Result	Rating
1	% of projects managed / administered by Division constructed on schedule and on budget (year to date)	75 to 85	20%	70%	73%	77%	80%	80%	ME
2	# of issues identified per Work Zone Safety Audit report (quarterly totals)	5 to 3	15%	0	1	0	1	2	EE
3	Maintenance condition survey score (quarterly scores; year end result is final quarter score)	70 to 85	15%	83	95	87	92	92	EE
4	Bridge condition survey score (semi-annual scores; year end is final semi-annual score)	80 to 90	10%	X	70	X	78	78	DNME
5	Avg operating speed in mph on portions of Strategic Highway Corridor that run through Division (semi-annual scores; year end result is final semi-annual score)	45 to 50	10%	43	X	53	X	53	EE
6	Miles paved per dollar spent on paving (year to date)	0.003 to 0.005	10%	0.0053	0.0055	0.0054	0.0055	0.0055	EE
7	Employee satisfaction survey composite score (annual survey)	70 to 80	10%	X	X	60	X	60	DNME
8	MCAP Construction Quality Index (annual assessment)	85 to 90	5%	X	87	X	X	87	EE
9	Avg # of minutes from incident to all lanes open (year to date)	30 to 20	5%	18.5	18.2	17.9	18.1	18.1	EE
Overall Weighted Rating			100%						2.40
Rating key:				Interpretation of weighted rating:					
EE = exceeds expectations				>2.7 = exceeds expectations = O					
ME = meets expectations				2.0-2.7 = meets expectations = G					
DNME = does not meet expectations				<2.0 = does not meet expectations = BG					

Work Plan and Appraisal Form (2)

Rating key:		Interpretation of weighted rating:	
EE = exceeds expectations		>2.7 = exceeds expectations = O	
ME = meets expectations		2.0-2.7 = meets expectations = G	
DNME = does not meet expectations		<2.0 = does not meet expectations = BG	
Overall Weighted Rating	2.40		
NCDOT Values	Yes/No	Comments (required if "No")	
Safety - We are committed to performing our work safely in order to protect the public and ourselves.	Yes		
Customer Service - We will respond to our customers' needs in a timely and courteous manner.	Yes		
Efficiency - We will achieve results without waste.	Yes		
Integrity - We guard the public trust and adhere to a standard of honesty. We hold to high ethical and moral standards in our business practices.	Yes	Opens every staff meeting with a brief review of ethical standards and discussion of a hypothetical case.	
Growth and Development - We promote professional development and growth of our people with a goal of empowering employees with knowledge and resources to produce results.	Yes		
Quality - We aspire to achieve the highest level of excellence in delivering our programs and services.	Yes		
Overall State Rating	G	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> O = Outstanding G = Good BG = Below Good </div>	
<div style="border: 1px solid black; padding: 5px;"> Use "Interpretation of weighted rating" key above to assign Overall State Rating. Rating may be downgraded due to employee actions that were inconsistent with NCDOT Values. </div>			

Work Plan and Appraisal Form (3)

April 1, 2008 - March 31, 2009				
Owner: R Employee			Position: District Engineer	
Note: This information will be used for developmental purposes.		In the "S" column, enter an X next to the 5 to 7 behaviors that represent this individual's strengths. In the "DN" column, enter an X next to at least 3 behaviors on which this individual is least effective relative to all the other behaviors.		S = Strength DN = Development need
Behavioral Expectations		Appraisal		
Competency	Indicators	S	DN	Notes
Integrity / Honesty	Models and encourages high standards of honesty and integrity.			Opens staff meetings with discussion of case involving ethics. This idea now being tried out by other Div Engineers.
	Promotes ethical practices in all organizational activities.	X		
	Applies department / office policies in a consistent manner.			
	Demonstrates consistency between words and actions.			
Accountability	Exercises power, authority, and influence appropriately to achieve department / office goals.			
	Takes personal responsibility for work products and services of his/her group.			
	Assures that his/her workgroups results are measured.			
	Tracks results of programs or activities and takes corrective action when necessary.			
Problem Solving	Encourages subordinates to take responsibility for work products and services			Excellent at catching problems in early stages. Examples: US 1 shoulder deterioration, dissatisfaction of homeowners on test corridor. Could work on identifying and trying out creative solutions. Example: Signage on NC 327.
	Recognizes and defines problems and issues.	X		
	Gathers enough relevant data about problems and issues to conduct a complete analysis.			
	Uses a variety of methods to analyze and interpret data.			
Financial Management	Generates multiple solutions based on data analysis.		X	Uses a very effective tickler system to keep tabs on contractor progress. Always follows up on exceptions with contractor.
	Recommends appropriate solutions to problems.			
	Prepares budget or provides budget input for own area of responsibility.			
	Demonstrates an understanding of the roles of the department / office, Division of Administration, and the legislature in the budget process.			
	Explains or justifies budget requests.			
	Monitors budgets to ensure cost-effective resource use.			

Work Plan – Key Points

- **Manager and boss mutually agree upon:**
 - Metrics to include on work plan (from 5 to 9 measures; accountability)
 - Goals for each metric (expressed as a range)
 - Relative importance of each metric (expressed as a % weight)
- **Consistency?**
 - One size does not necessarily fit all (e.g., Division Engineers will have goals specific to their Divisions; not all Division Engineers' metrics will have same weights and some metrics may appear on some Division Engineers' work plans but not on others')
 - Boss, next-level boss, and HR to oversee – to assure appropriateness, fairness

Performance Appraisal – Key Points

- **Results**

- Fill in data from dashboard
- Determine meet, exceed, did not meet each metric
- Review adherence to NCDOT values. If non-adherent → penalty; adherent → no effect on rating
- Assign overall rating – Exceeds Expectations (Outstanding), Meets Expectations (Good), Does Not Meet Expectations (Below Good)

- **Competencies**

- Force rank behavioral indicators – top 5, bottom 3
- Discuss area to develop
- More fully use a strength, shore up a weakness
- Choose based on NCDOT needs, succession considerations

- **Appraisal reviewed by next-level boss for appropriateness and consistency**

- **Boss discusses appraisal with manager**

Ongoing Mgmt of Performance – Key Points

- Avoid duplication of effort
- Boss meets with managers quarterly to review actual results on work plan metrics

Development Planning

- To raise performance level in current job or prepare to take on new role
- Focuses on behavior change, not activity completion
- Emphasizes challenging assignments to develop designated skills
- Provides structure (the plan) and defines support needed (from boss, mentor)

Development Plan

Employee Name: _____ Date: _____

Supervisor or Development Partner: _____

1. Title

--

2. Purpose

--

3. Measures

--

4. Actions and Due Dates

5. Support

--

6. Follow up

--

Definitions

- Individual Development Plan – Written by or for employees who wish to develop their skills in order to take their performance to a higher level in their current job, get ready to take on greater responsibilities, or prepare to move into another position. The plan should focus on a specific competency or skill to be enhanced or area of knowledge to be acquired.
- Career Development Plan – Long-range plan that identifies employees' career interests and goals, in light of organization's needs, and their strategy for acquiring the necessary knowledge, skills, and experience to achieve their goals. The career plan periodically spawns Individual Development Plans for developing specific skills that contribute to their achieving their longer-term goal.
- Corrective Action Plan – Drafted by supervisor for employees whose performance is deficient – that is, does not come up to standard. It consists of short-term measures an employee can take to raise the level of performance to meet expectations.

Next Steps....

- Develop NCDOT values
- Bring in metrics
- Bring in leadership competency model
- Set rollout schedule
- Document performance management process
- Finalize forms
- Communication to users

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Sample Leadership Planning Process

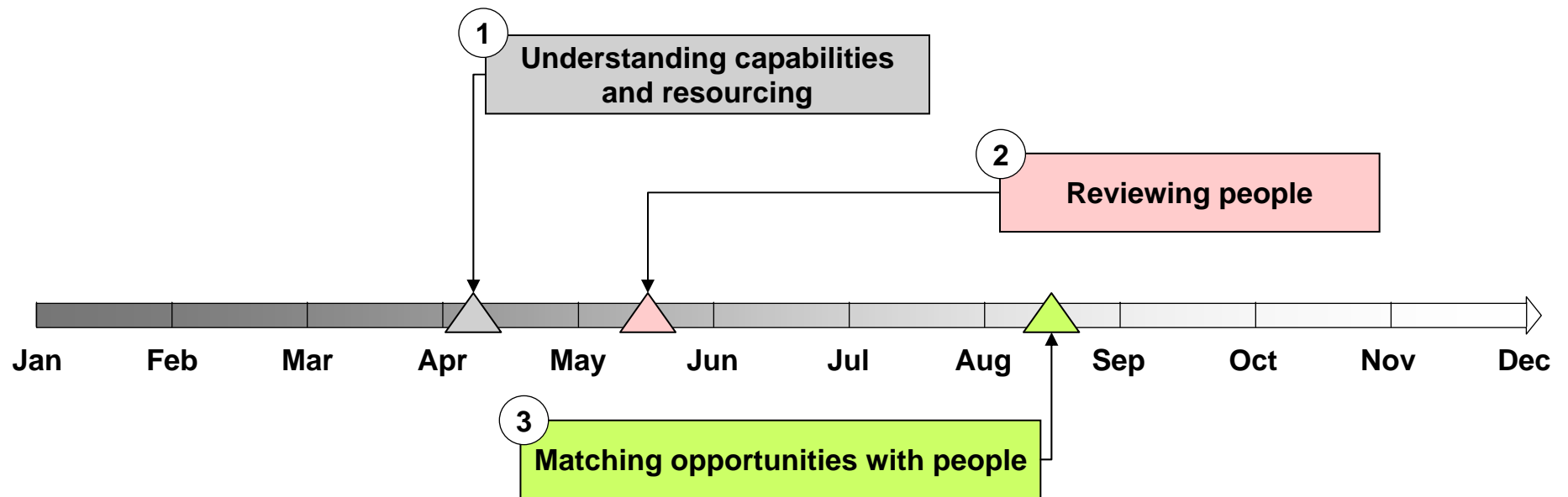


October 1, 2007

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The Leadership Planning process involves three discussions.

EXAMPLE



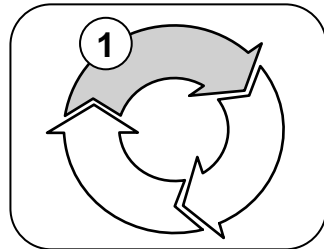
Key existing process

Strategic planning/
budgeting (cont.)

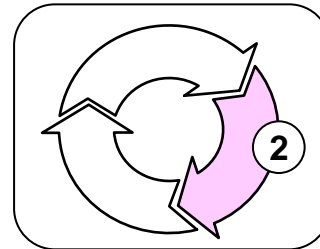
Individual performance management
review process

Strategic planning/budgeting

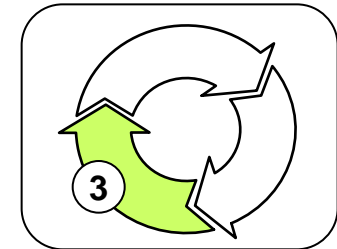
These discussions cover a series of independent, yet related topics EXAMPLE



Understanding capabilities and resourcing



Reviewing people



Matching people with opportunities

When

- April every year

- May every year

- Set sessions in August every year
- Other sessions throughout the year as required

Who

- SMC
- SPOT

- Executive Team
- HR support

- Executive Team
- HR support

Time required

- All day

- All day

- ~2 hours per session

Items for discussion

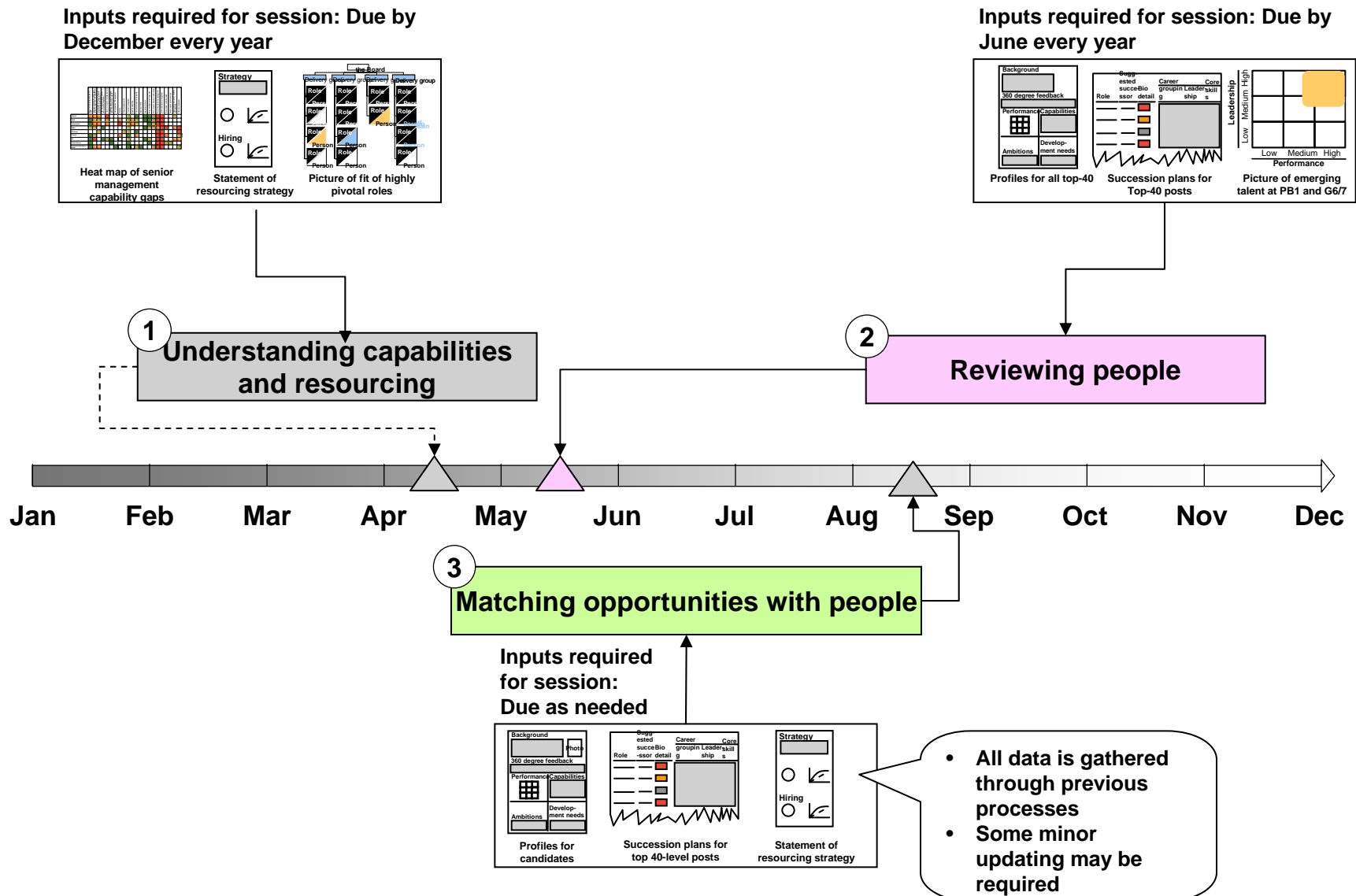
- Senior management capability gap
- Senior management resourcing strategy
- Fit of pivotal roles across senior management

- Development plans for top 40
- Succession plans for top-40 posts
- Emerging talent

- Hiring/posting approach for top-40 vacancies and key parameters of recruitment process
- Opportunity matching for selected roles

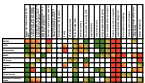

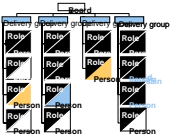
Several key inputs are required to enable the various discussions to proceed

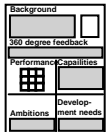
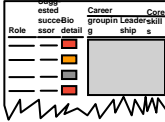
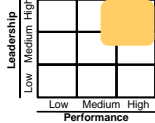
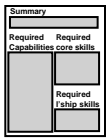
EXAMPLE

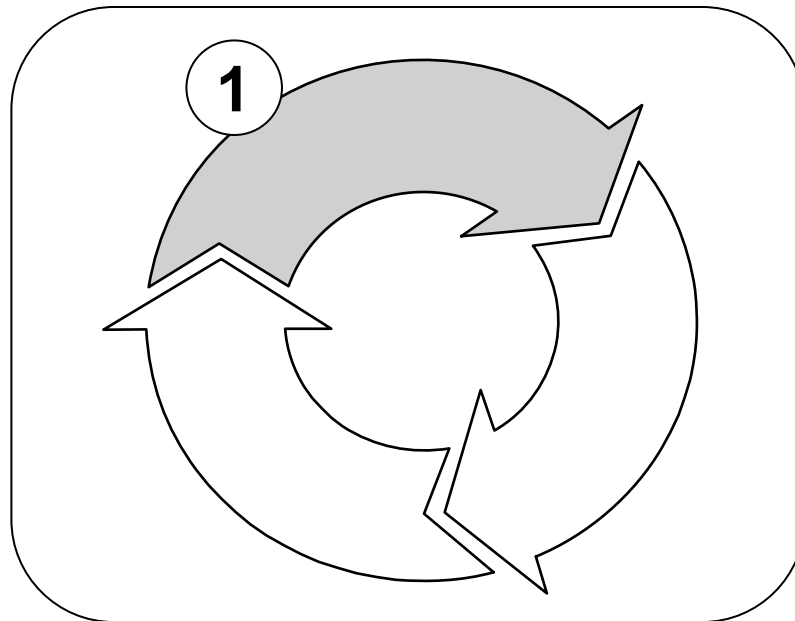


The effort required and the ultimate responsibility for preparing these inputs varies

EXAMPLE

	Required input			
	Due date	HR	Line manager	Individual
 Heat map of senior management capability gaps	March	Significant time/effort required	Considerable time/effort required	Minimal effort required
Note: Bulk of work falls to HR. LMs must keep job descriptions for all senior management team roles up-to-date. Individual capabilities come out of profiles				
 Statement of resourcing strategy	March	Significant time/effort required	Minimal effort required	Minimal effort required
Note: Almost all work falls to HR				
 Picture of "fit" of highly pivotal roles	March	Significant time/effort required	Minimal effort required	Minimal effort required
Note: Bulk of work falls to HR. Key data inputs come from "pivotal roles" exercise and profiles				
<div> <div>Significant time/effort required</div> <div>Considerable time/effort required</div> <div>Minimal effort required</div> </div>				

	Required input			
	Due date	Group HR	Line manager	Individual
 Profiles for all top 40	April	Significant time/effort required	Considerable time/effort required	Significant time/effort required
Note: HR must coordinate gathering of data from multiple existing sources. Individual must validate and update personal data. LM has to validate				
 Succession plans for top-40 posts	April	Considerable time/effort required	Significant time/effort required	Minimal effort required
Note: Group HR plays coordinating and synthesizing role. Onus is on board members to generate succession plans for top-40 within their areas				
 Picture of emerging talent	April	Considerable time/effort required	Considerable time/effort required	Significant time/effort required
Note: Process still to be defined but will be part of the performance review system, so not particularly onerous for anyone				
 Job descriptions	July	Considerable time/effort required	Significant time/effort required	Minimal effort required
Note: Group HR plays coordinating role. Onus is on board members to produce job descriptions for all senior management team roles within their areas				



**Discussion 1:
Understanding capabilities and resourcing**

1. Attendees and agenda for the capabilities and resourcing discussion

EXAMPLE

Capabilities and resourcing agenda	Lead	Timing
• Introductory remarks	Secretary	5 min.
• Update on actions agreed to at last meeting	Chief Deputy	10 min.
• Discussion of capabilities gaps	HR Dir.	90 min.
• Discussion of resourcing strategy	HR Dir.	90 min.
• Discussion of fit of pivotal roles	HR Dir.	120 min.
• Wrap-up (agreed upon actions)	HR Dir.	10 min.
• Debrief	HR Dir.	5 min.
		<hr/> 5.5 hours



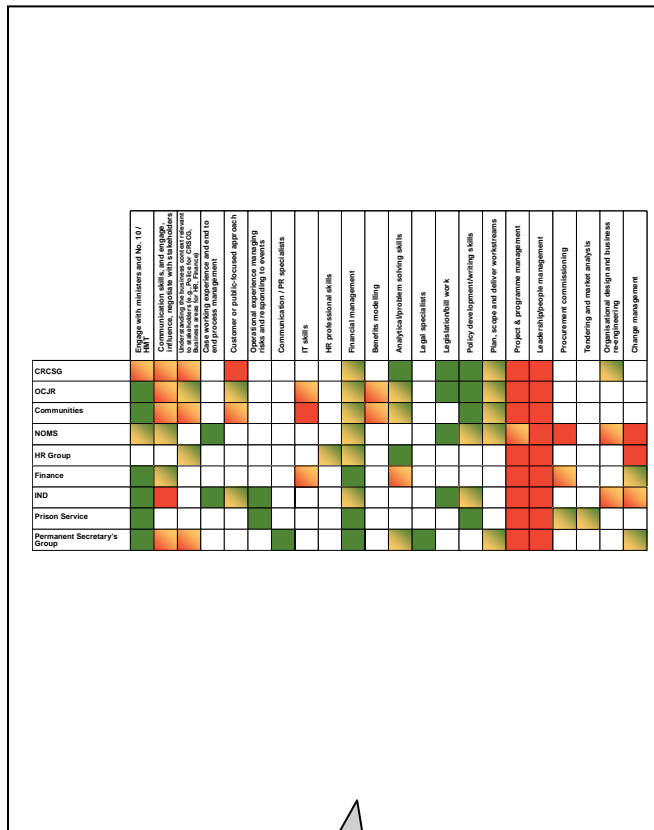
Attendees

- Secretary
- HR Dir (Chair)
- HR top 40 (facilitator)
- Corporate support
 - HR
 - SPOT (if applicable)

1. Tools required for the capabilities and resourcing discussion

EXAMPLE

① Capability gap analysis



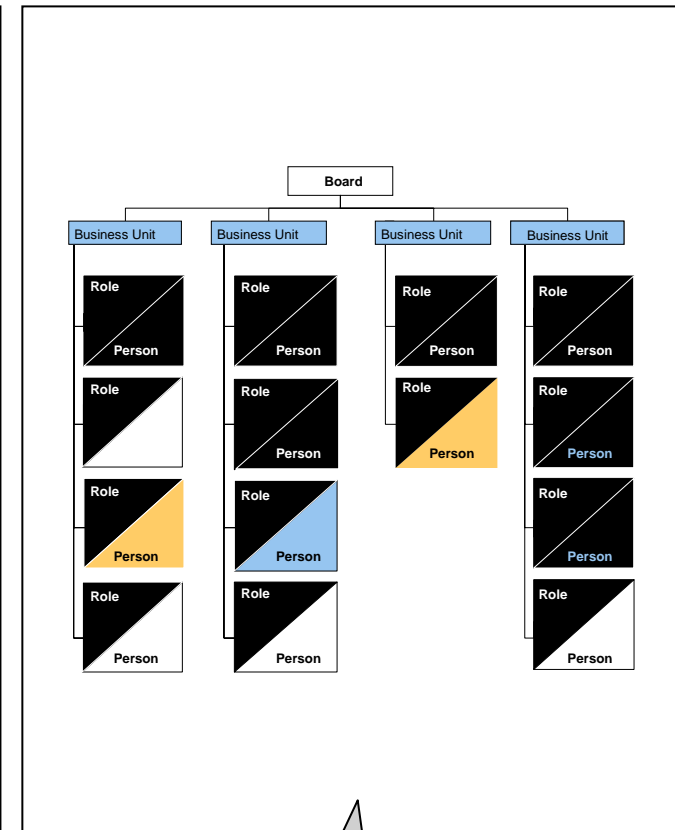
- Snapshot of current and anticipated senior management capability gaps by business unit and access to the client group
- Review of suggested/actual actions to plug gaps

② Statement of senior management resourcing strategy



- Draft resourcing strategy statement based on inputs from HR and business heads

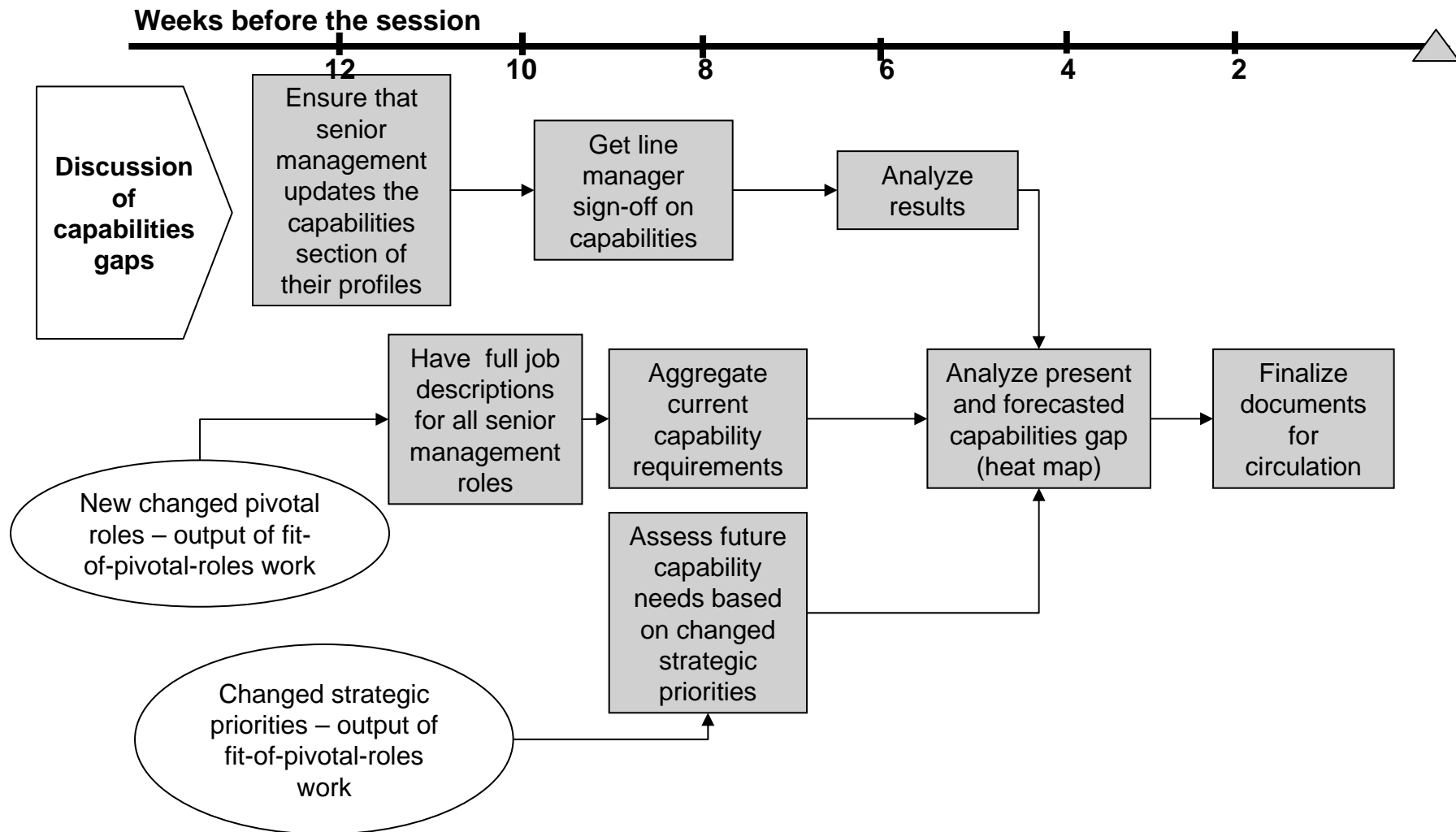
③ Organizational barometer



- Snapshot of whether most highly pivotal roles are occupied by highest-performing people

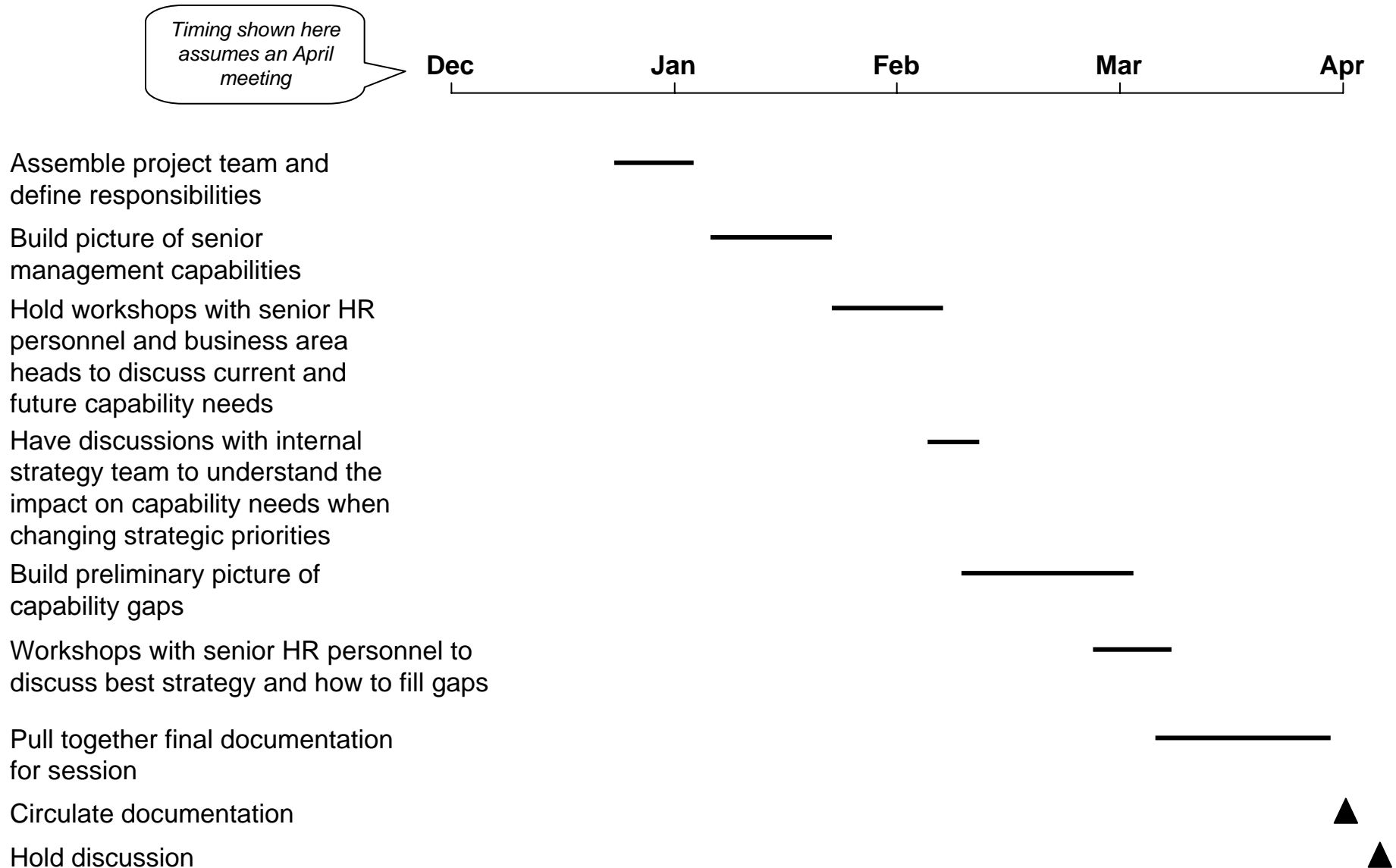
1. Preparing for the capabilities-gap session

EXAMPLE



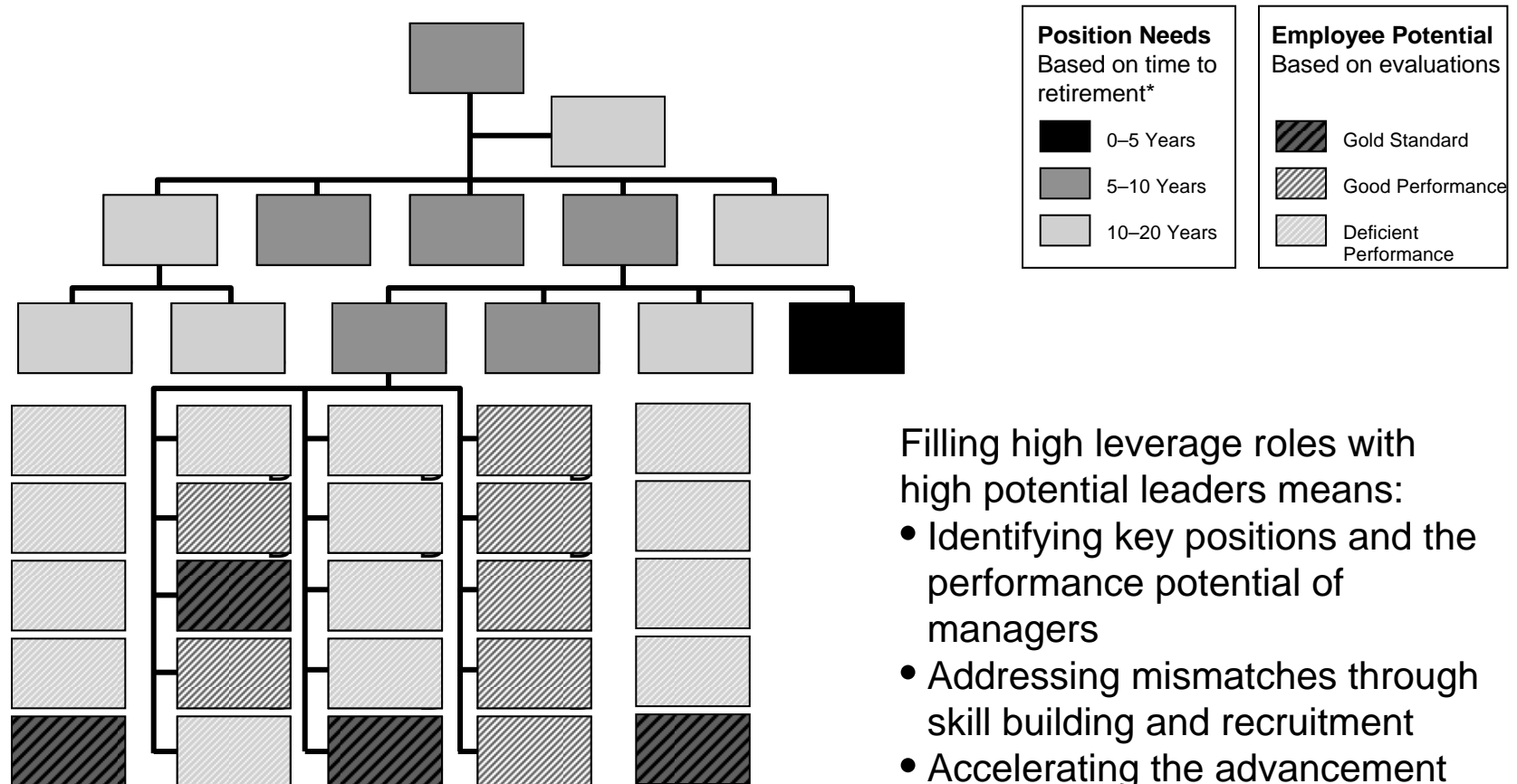
1. Planning for the first capabilities-gap session

EXAMPLE



1. The Capabilities Gap session is an excellent opportunity to improve talent placement.

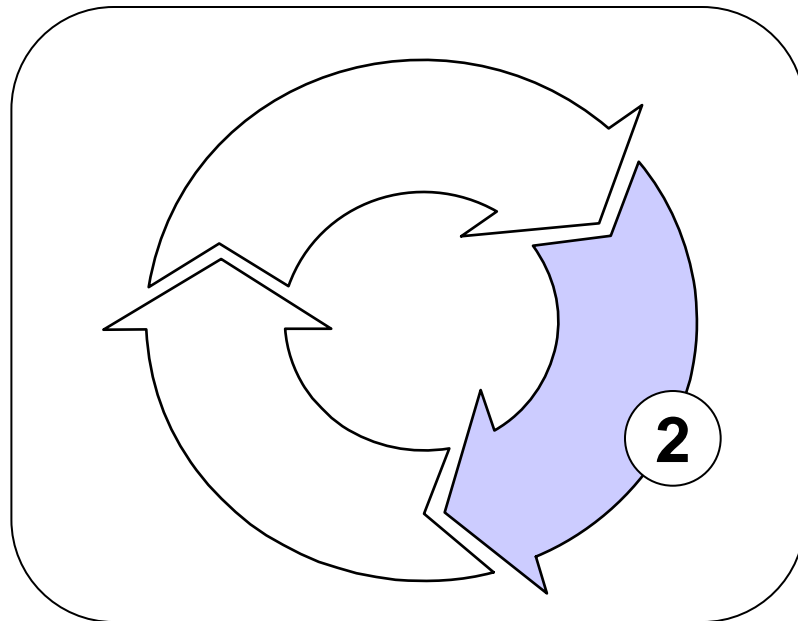
PUBLIC-SECTOR EXAMPLE (DISGUISED)



Filling high leverage roles with high potential leaders means:

- Identifying key positions and the performance potential of managers
- Addressing mismatches through skill building and recruitment
- Accelerating the advancement of talented players by moving out poor performers

*Best practice is to add element of criticality
Source: McKinsey Organization Practice



Discussion 2: Reviewing People

2. Tools required for the people-review discussion

EXAMPLE

① Profiles

Background													
<div></div>													
360-degree feedback													
<div></div>													
Performance	Capabilities												
<div>Leadership</div> <table border="1"> <tr><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td><td></td></tr> </table> <div>Performance</div>													<div></div>
Interests/ambition	Development needs												
<div></div>	<div></div>												

- Standard document that summarizes experience, performance, capabilities, and development needs

② Succession plan

Skills developed by position				
Role	Urgency	Career grouping	Leader-ship	Core skills
• —	<div></div>	<div></div>		
• —	<div></div>			
• —	<div></div>			
• —	<div></div>			

Potential successor			Skills and experience		
Role	Urgency	Bio detail	Career grouping	Leader-ship	Core skills
• —	• —	<div></div>	<div></div>		
• —	• —	<div></div>			
• —	• —	<div></div>			
• —	• —	<div></div>			

- Document that illustrates key features of top 40 roles, urgency and difficulty to replace, possible candidates, and their capabilities

③ Emerging-talent grid

Focus of discussion

High	<div>Under-performer</div> <div>Give warning</div>	<div>High potential</div> <div>Plan next move</div> <div>provide extra coaching</div>	<div>Superstar</div> <div>Plan multiple fast moves; ensure compensation is sufficient</div>
Medium	<div>provide targeted development support</div>	<div>Solid</div> <div>Consider development</div>	<div>High potential</div> <div>Move to next development opportunity</div>
Low	<div>Failure</div> <div>Manage out</div>	<div>Solid</div> <div>Keep in place</div>	
	Low	Medium	High

Performance

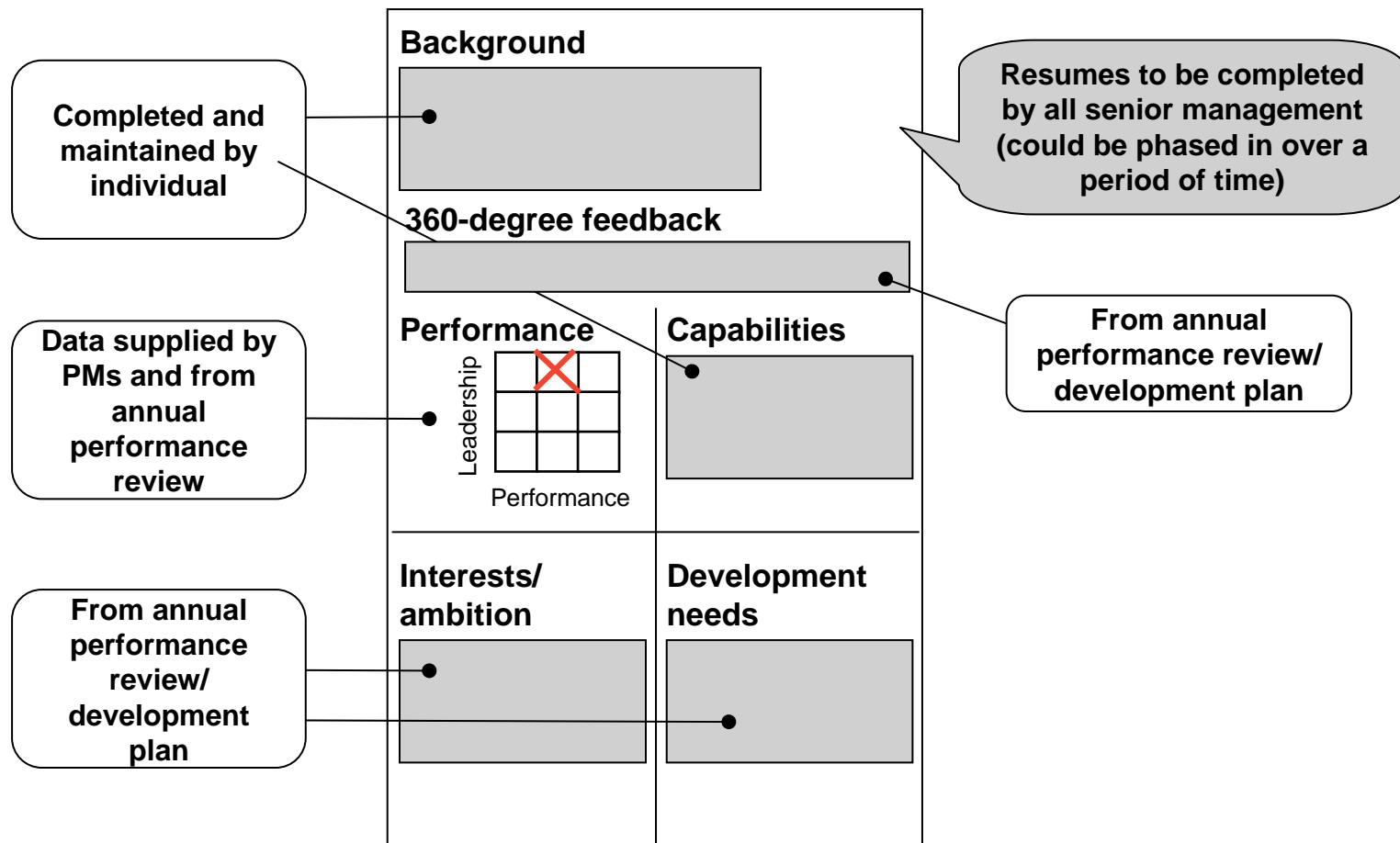
Leadership

Talent-spotting method not identified as part of leadership-planning process

- Document that illustrates emerging talent

2. Sources of data for the profiles

EXAMPLE



2. Agenda and attendees for the people-review discussion

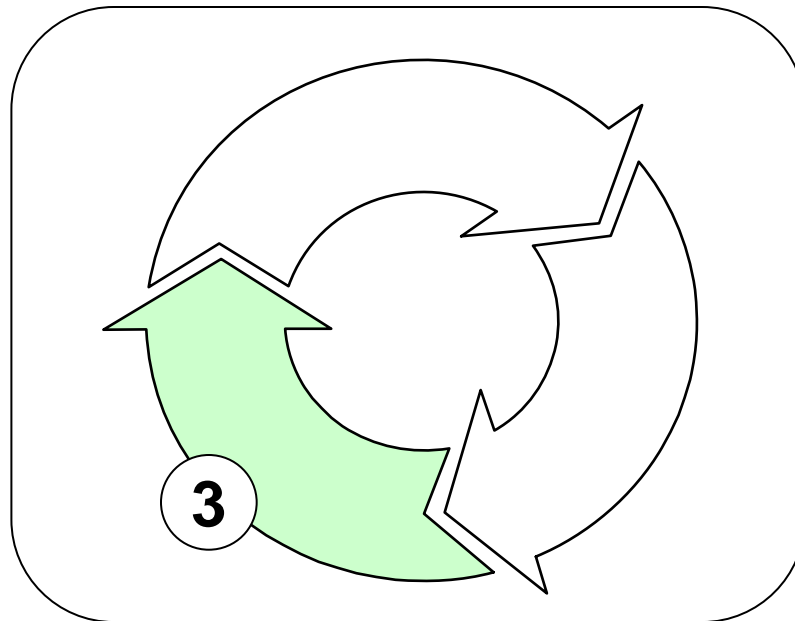
EXAMPLE

People-review discussion agenda	Lead	Timing
• Introductory remarks	Secretary	5 min.
• Update on actions agreed to at last meeting	Chief Deputy	10 min.
• Discussion of top-40's development plans	HR Dir.	240 min.
• Discussion of succession plan	HR Dir.	60 min.
• Discussion of emerging talent	HR Dir.	60 min.
• Wrap-up (actions agreed upon)	HR Dir	10 min.
• Debrief	HR Dir	5 min.
		<hr/> 5.5 hours



Attendees

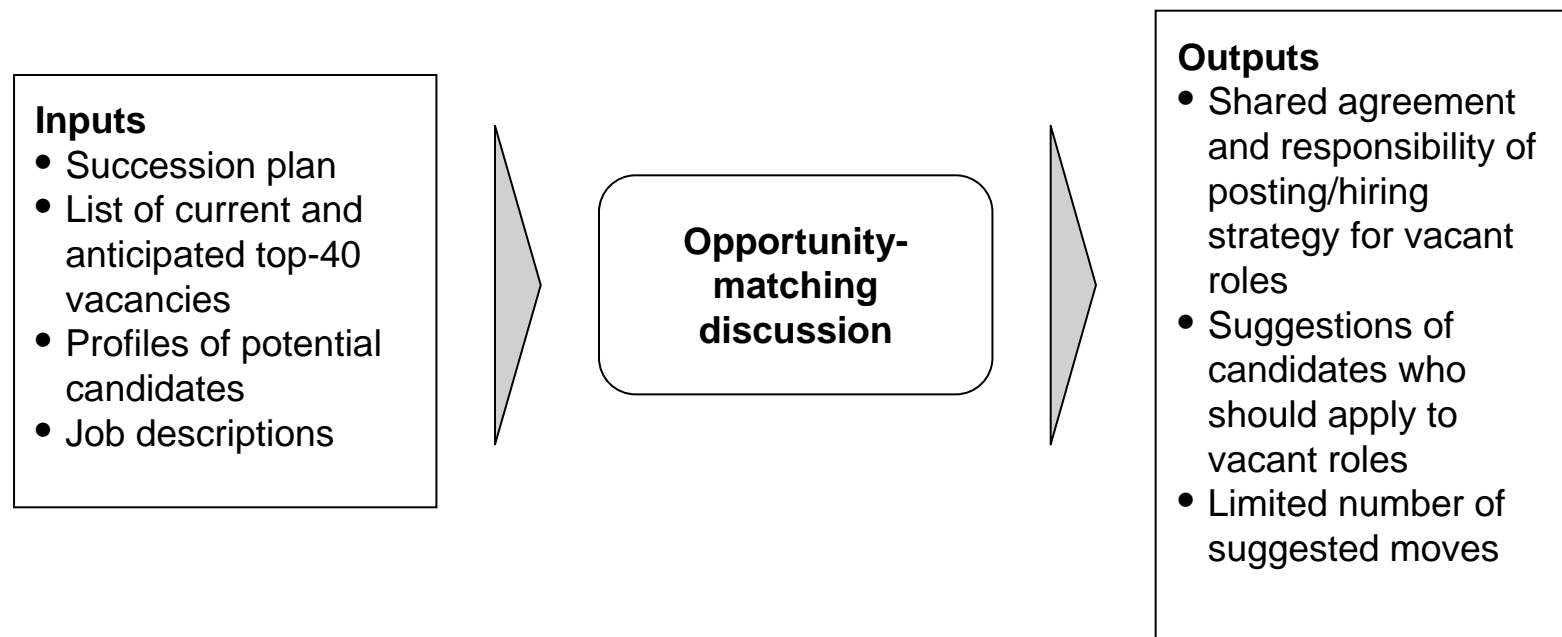
- Secretary
- HR Dir. (chair)
- HR top 40 (facilitator)
- Corporate support
 - HR



Discussion 3: Opportunity Matching

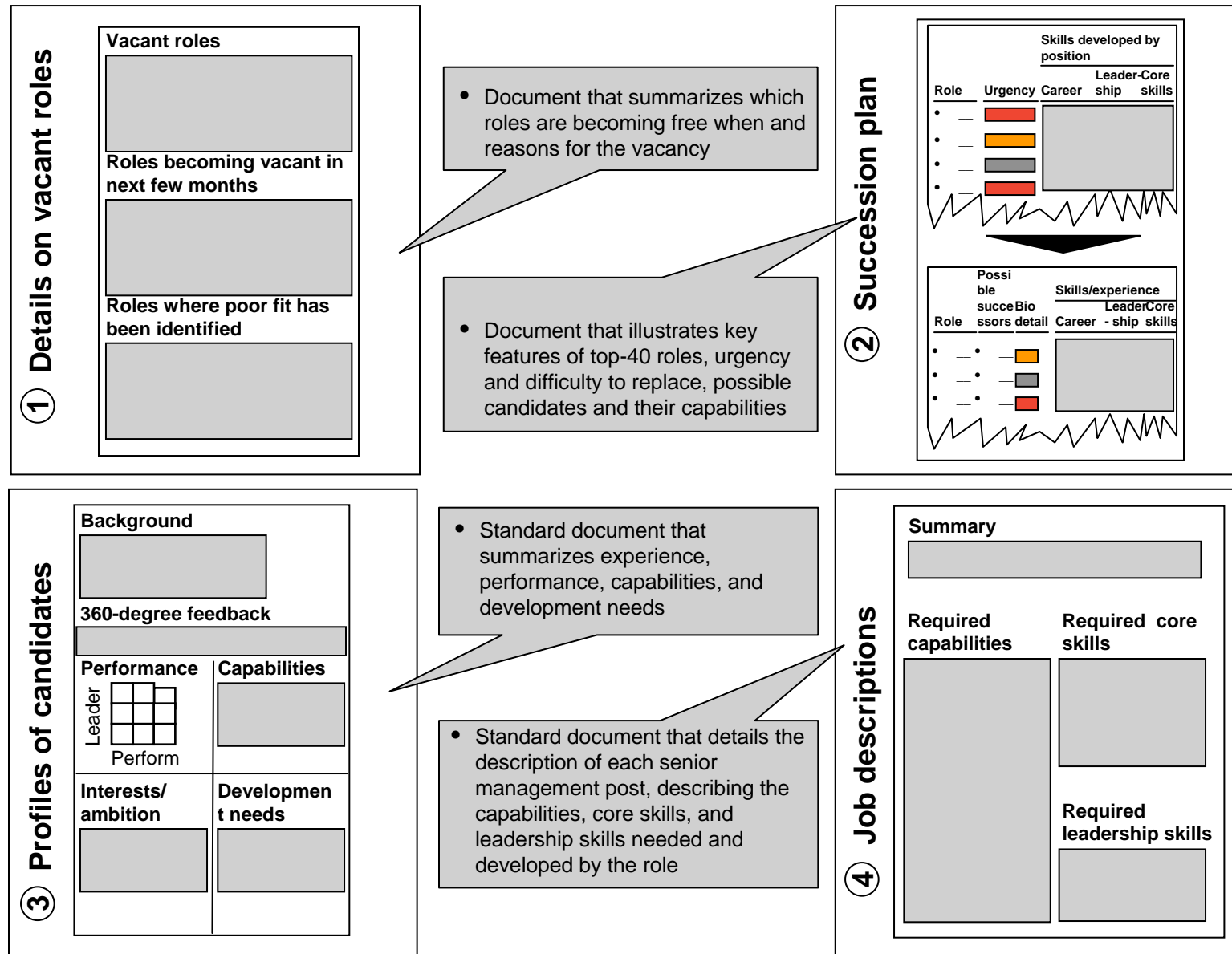
3. Inputs and outputs of the opportunity-matching discussion

EXAMPLE



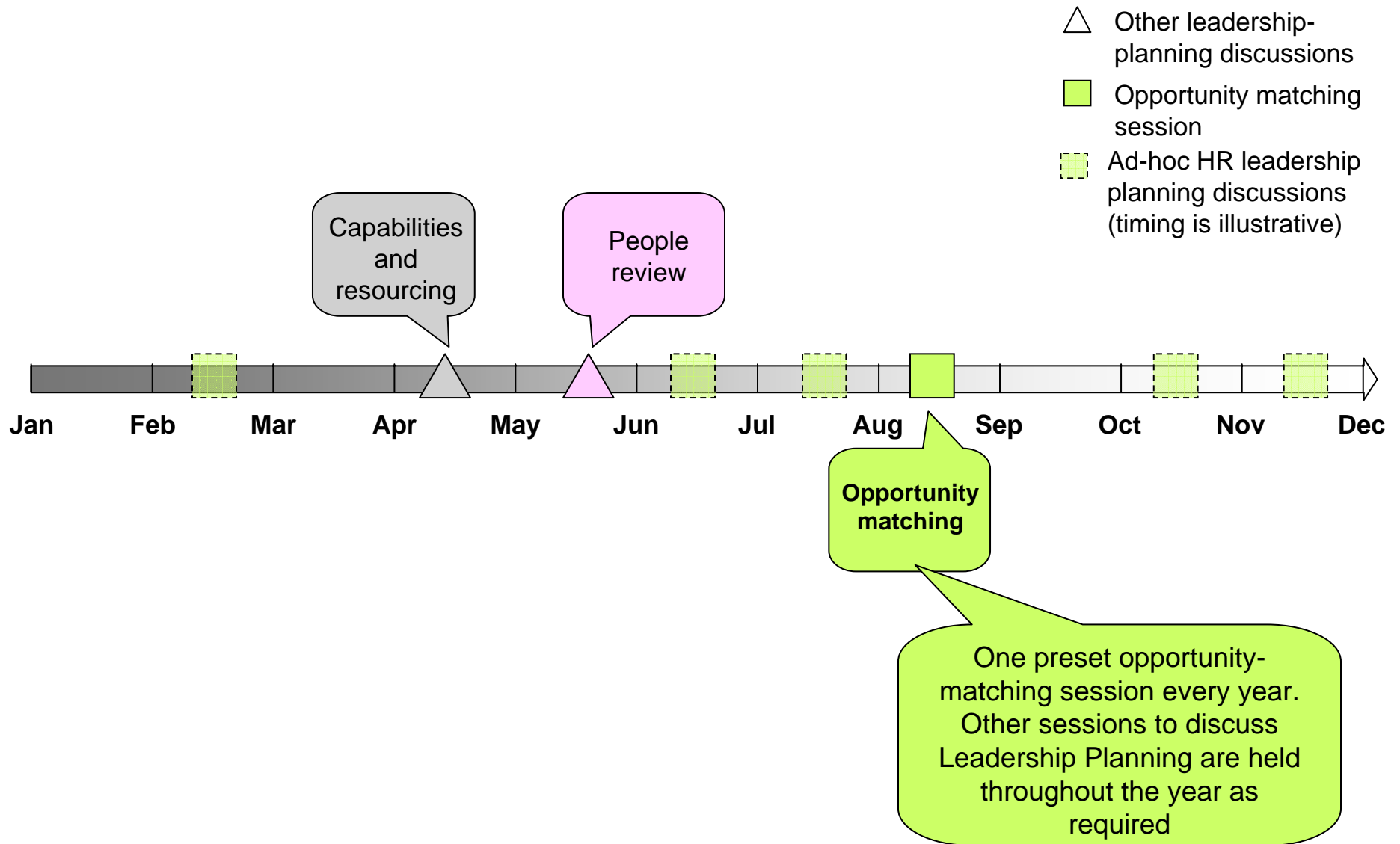
3. Papers required for the opportunity-matching discussion

EXAMPLE



3. Timetable for opportunity matching

EXAMPLE



3. Agenda for the opportunity-matching discussion

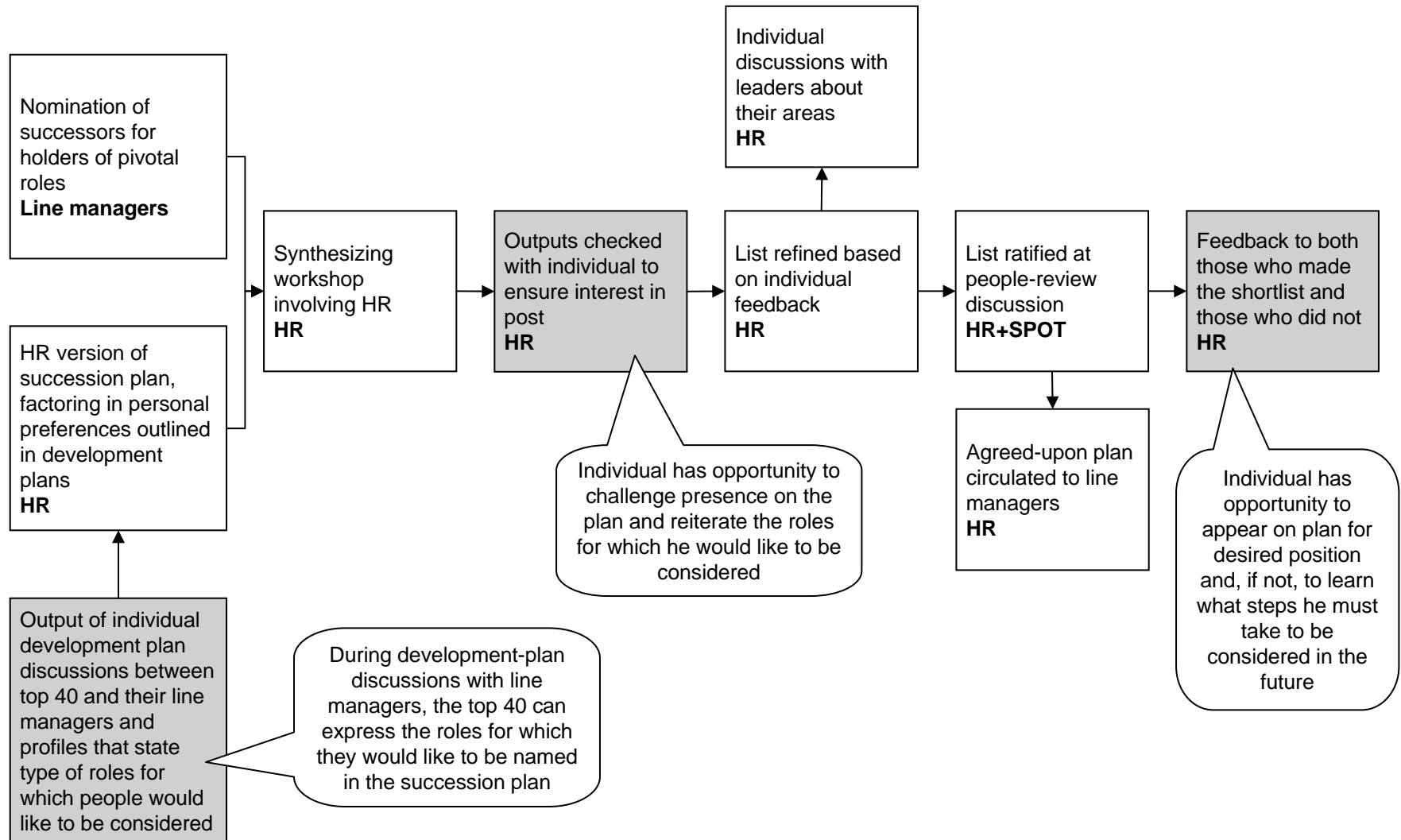
EXAMPLE

Opportunity-matching discussion agenda	Lead	Timing
• Introductory remarks	Secretary	5 min.
• Update on actions agreed to at last meeting	HR Dir.	10 min.
• Discussion of vacant opportunities and possible candidates	HR Dir.	90 min.
• Wrap-up (agreed upon actions)	HR Dir.	10 min.
• Debrief	HR Dir.	5 min.
		<hr/> 2 hours

3. Transparency and the challenge of drawing together the succession plan

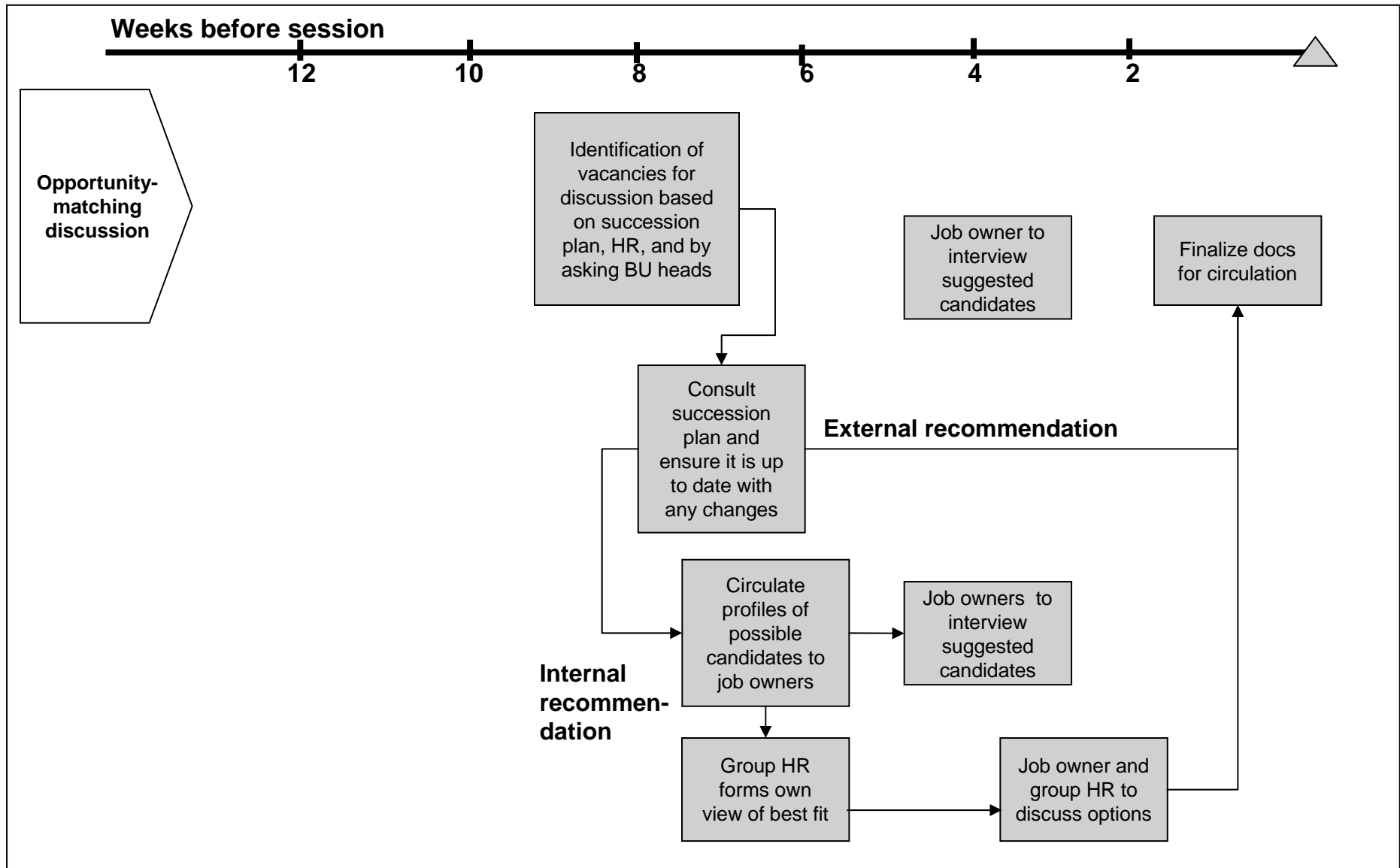
EXAMPLE

PUBLIC SECTOR-EXAMPLE



3. Preparing for the opportunity-matching session

EXAMPLE

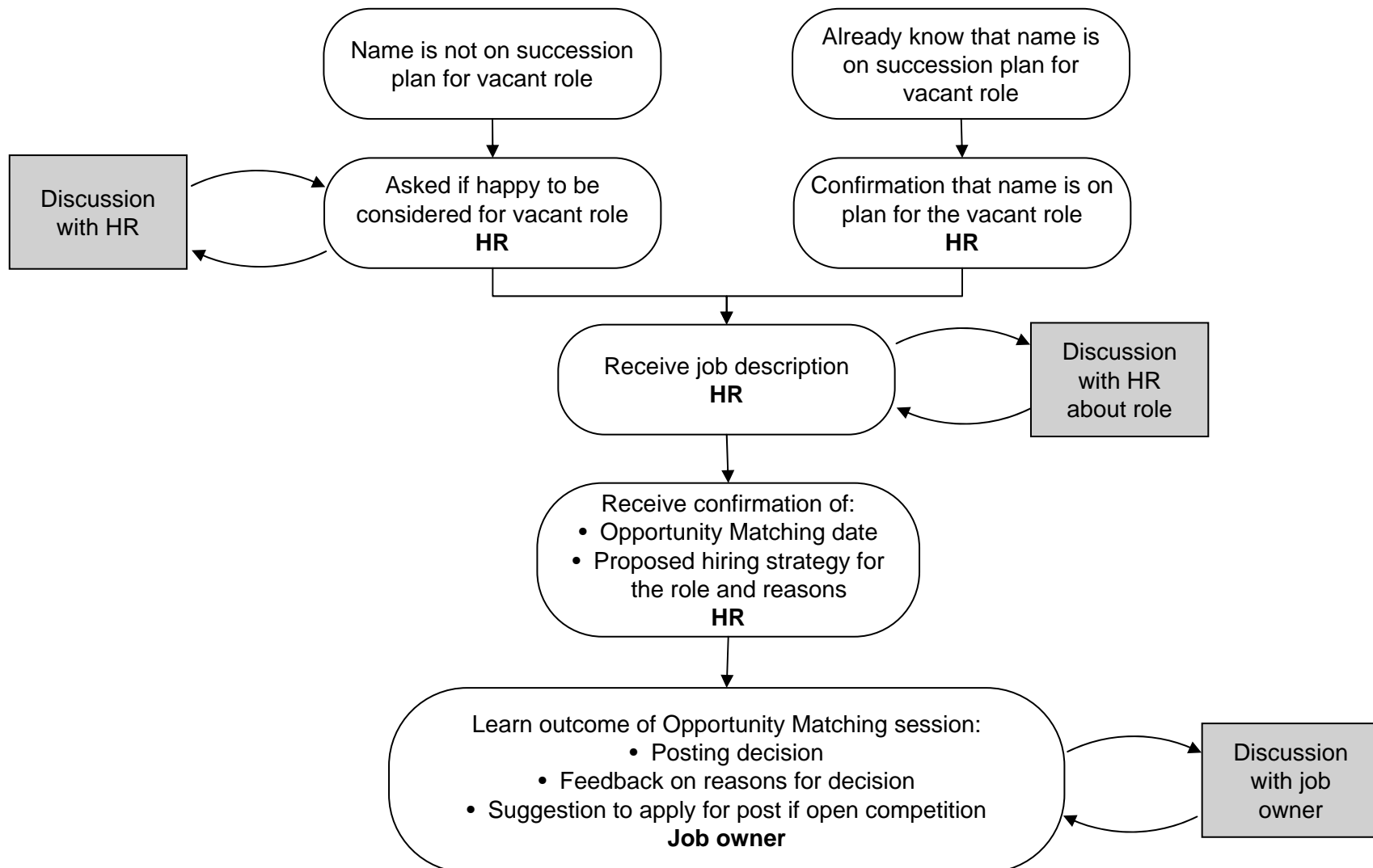


APPENDIX:

EXAMPLE

What the process feels like for the potential candidate's perspective

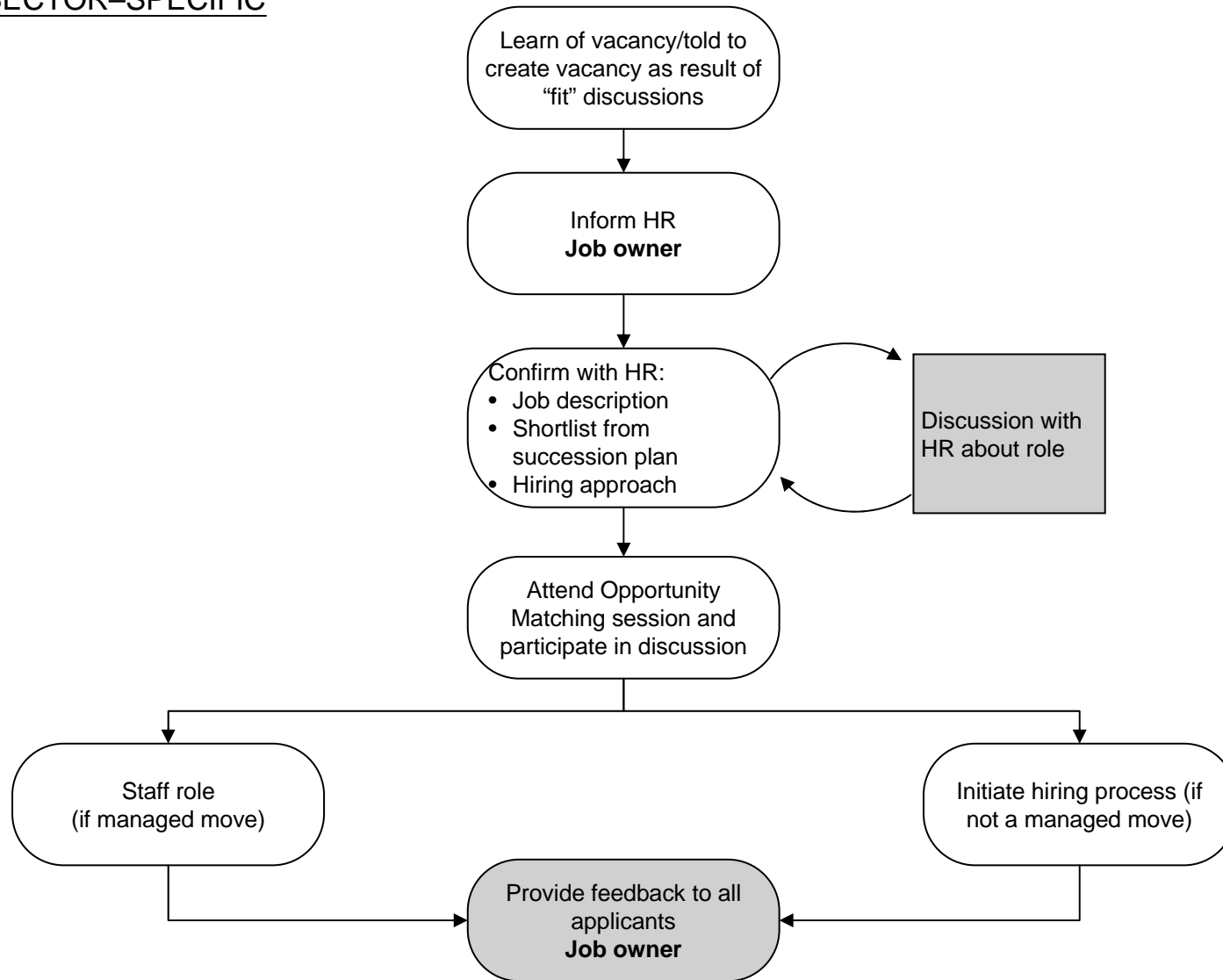
PUBLIC SECTOR-SPECIFIC



APPENDIX: What the process feels like for the job owner

EXAMPLE

PUBLIC SECTOR-SPECIFIC



CONFIDENTIAL

Talent Management Initiatives- Ownership and integration with HR



Discussion Document

August, 2007

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TODAY'S DISCUSSION

- The talent team's objectives and initiatives
- Ownership of talent initiatives
- Current HR resources and prioritization
- The look of a new strategic HR

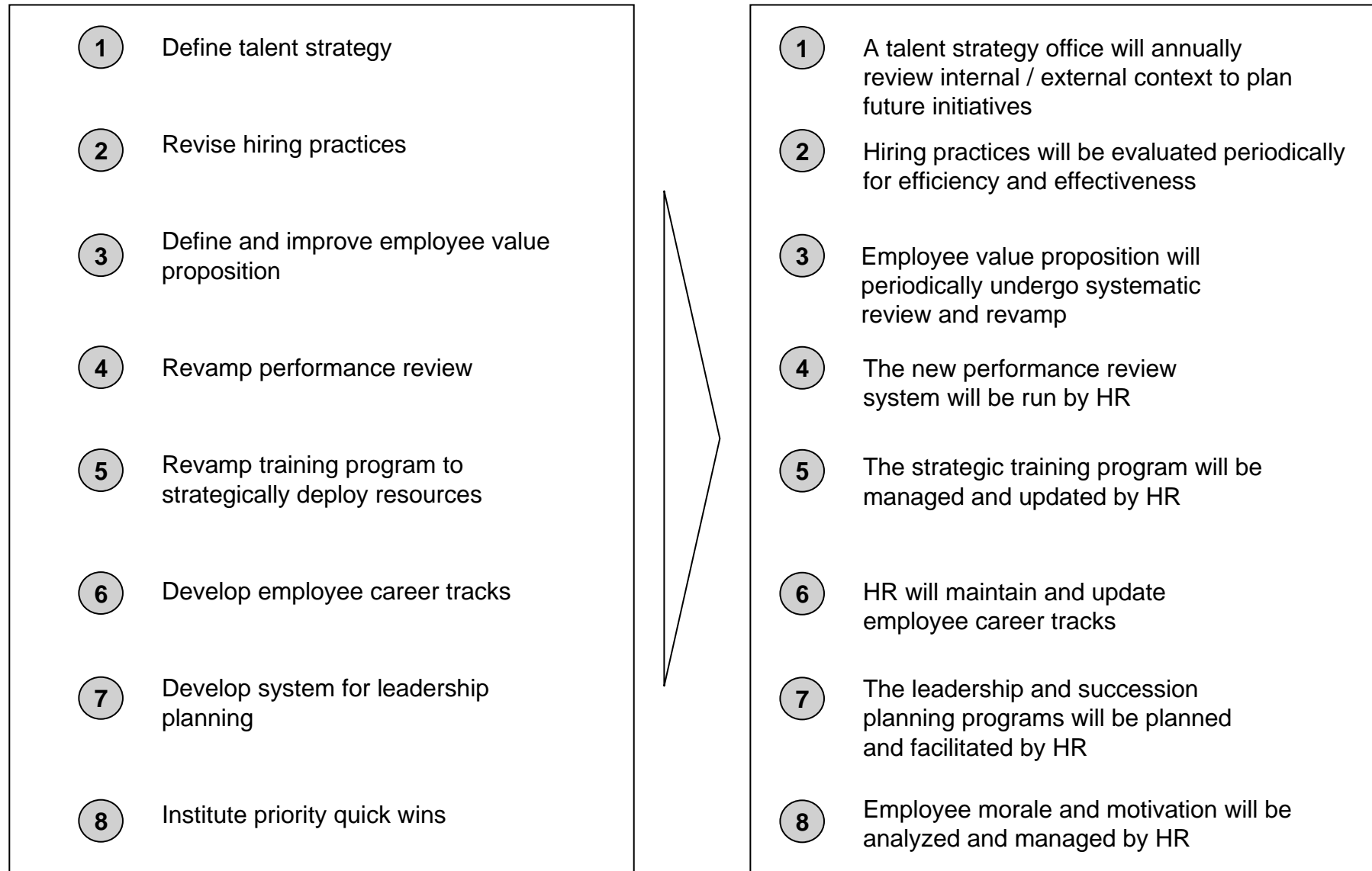
THE TEAM HAS IDENTIFIED EIGHT PRIORITY INITIATIVES THAT ARE THE FIRST STEP TOWARDS TRANSFORMATION

Key Elements

- | | |
|---|---|
| <p>1 Define talent strategy</p> | <ul style="list-style-type: none"> • Identify and plan for talent and capability needs in organization • Focus resources on top 100-250 leadership positions and assets |
| <p>2 Revise hiring practices</p> | <ul style="list-style-type: none"> • Define alternatives to posting process • Streamline qualification and approval process to allow greater hiring manager discretion |
| <p>3 Define and improve employee value proposition</p> | <ul style="list-style-type: none"> • Define and communicate new and existing development programs (e.g. career tracks, training, mobility planning) • Modifying salary policies |
| <p>4 Revamp performance review</p> | <ul style="list-style-type: none"> • Develop performance review system and tool with two levers of evaluation (metrics and potential/leadership assessment/competencies) • Improve ability to manage rewards and consequences (non-financial rewards, performance pay, consequences for underperformance, feed into goal setting) • Train managers on performance feedback |
| <p>5 Revamp training program to strategically deploy resources</p> | <ul style="list-style-type: none"> • Continually assess organizational training needs based on vision, goals, and strategy • Deploy training resources based on org needs and most effective training formats for development segments |
| <p>6 Develop employee career tracks</p> | <ul style="list-style-type: none"> • Develop system to define goals for role and career • Define technical, functional, and managerial career tracks • Develop assessment and dev't tools to enable process |
| <p>7 Develop system for leadership planning</p> | <ul style="list-style-type: none"> • Define key 100-250 roles in organization that drive vision/goals • Develop system to identify high potential employees and build their capabilities to fill these positions (heavy mobility) |
| <p>8 Institute priority quick wins</p> | <ul style="list-style-type: none"> • Wave 1: eliminate mandated vacancy rate, increase funding for out of state recruiting, modify qualification process, reduce approval steps for personnel packages, modify 10% rule, reinstate PE Bonus, implement clerical equity study |

Source: Talent Management Team Analysis

TO MAKE A LASTING IMPRESSION ON THE ORGANIZATION, THE INITIATIVES WILL NEED TO BE OWNED IN THE FUTURE BY HR

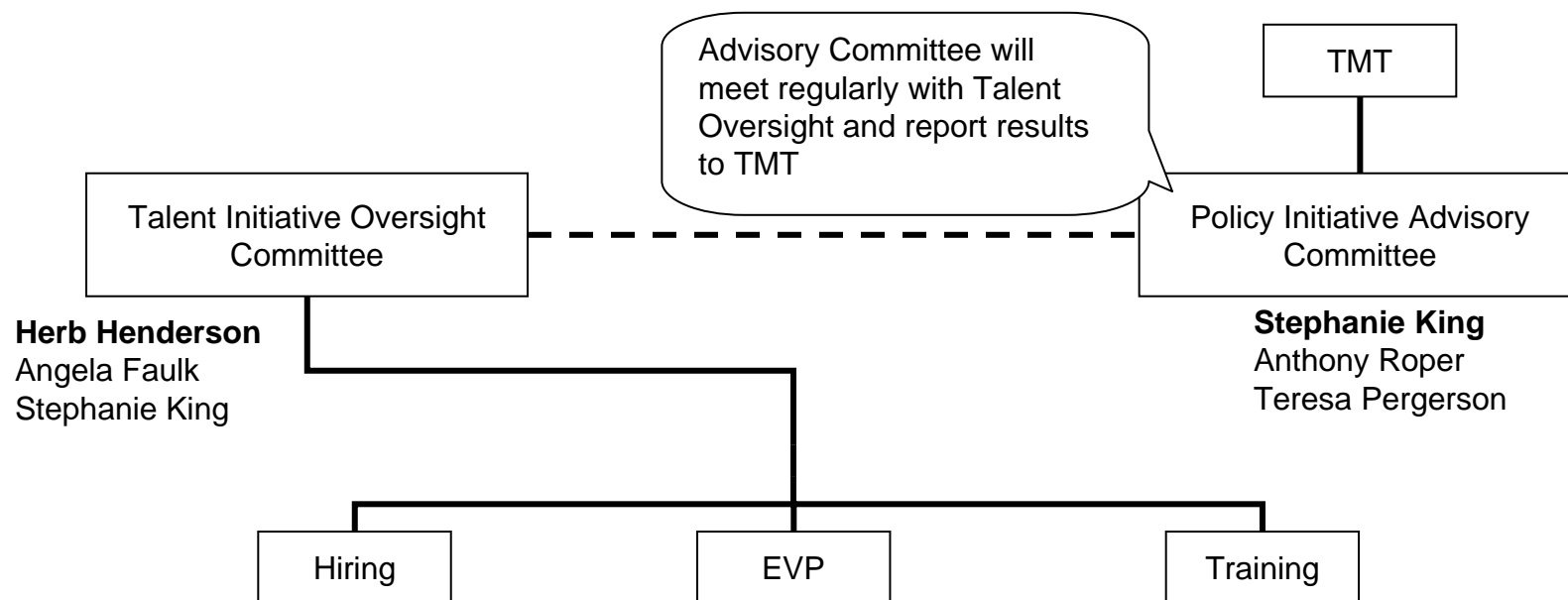


Source: Talent Management Team Analysis

TODAY'S DISCUSSION

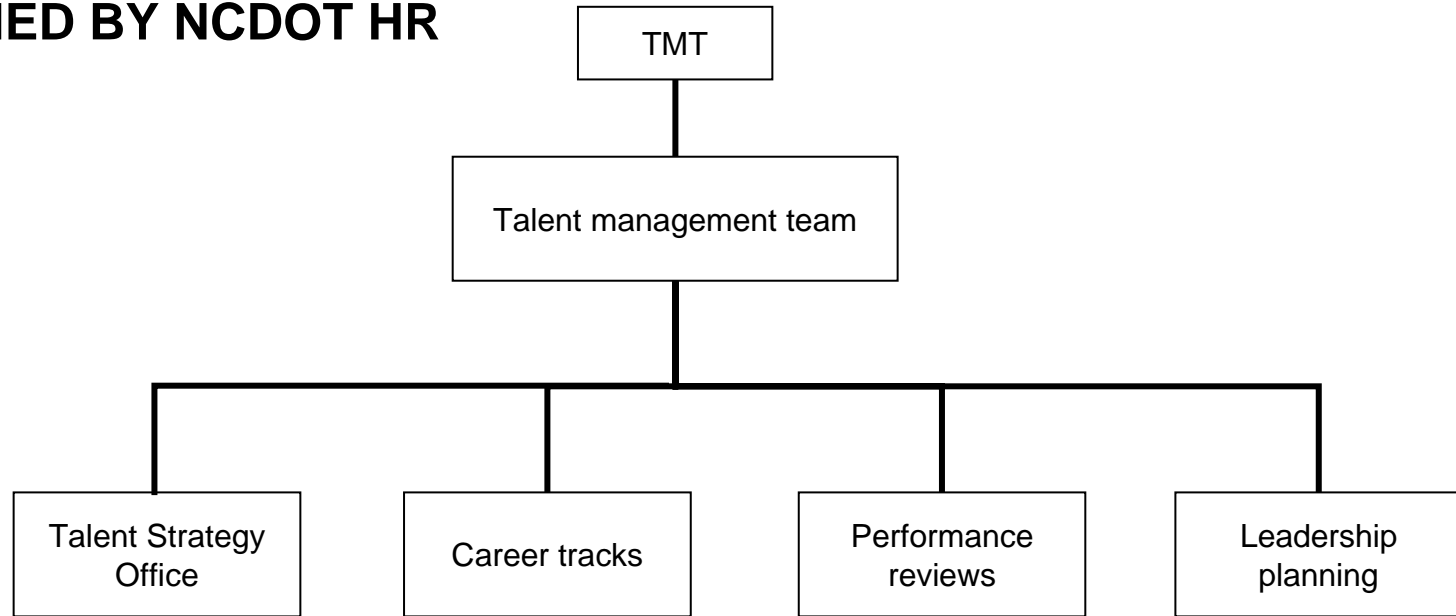
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POLICY INITIATIVES WILL BE EXECUTED BY HR WITH THE TALENT TEAM ACTING AS AN ADVISORY COMMITTEE



Policy initiative ownership	<ul style="list-style-type: none"> • TBD by Talent Initiative Oversight Committee 	<ul style="list-style-type: none"> • TBD by Talent Initiative Oversight Committee 	<ul style="list-style-type: none"> • TBD by Talent Initiative Oversight Committee
Objective	<ul style="list-style-type: none"> • Make hiring process as efficient and effective as possible 	<ul style="list-style-type: none"> • Define, develop, communicate EVP, and build in iterative process 	<ul style="list-style-type: none"> • Revamp training to strategically deploy resources and imbed evaluation metrics
Deliverables	<ul style="list-style-type: none"> • Detailed process map with requirements, costs, and time at each step • Bottleneck analysis • Recommended design • Implementation plans 	<ul style="list-style-type: none"> • Definition of targeted recruitment groups • Definition of EVP levers for each group • EVP communications and recruitment plans • Future EVP analysis plans 	<ul style="list-style-type: none"> • Key capabilities map • Key capabilities gap analysis • Recommended training resource deployment • New program designs • Training metrics • Future training analysis plans

PROCESS DESIGN INITIATIVES WILL BE LED BY TALENT MANAGEMENT TEAM WITH OSP AND NCDOT HR SUPPORT, AND THEN OWNED BY NCDOT HR



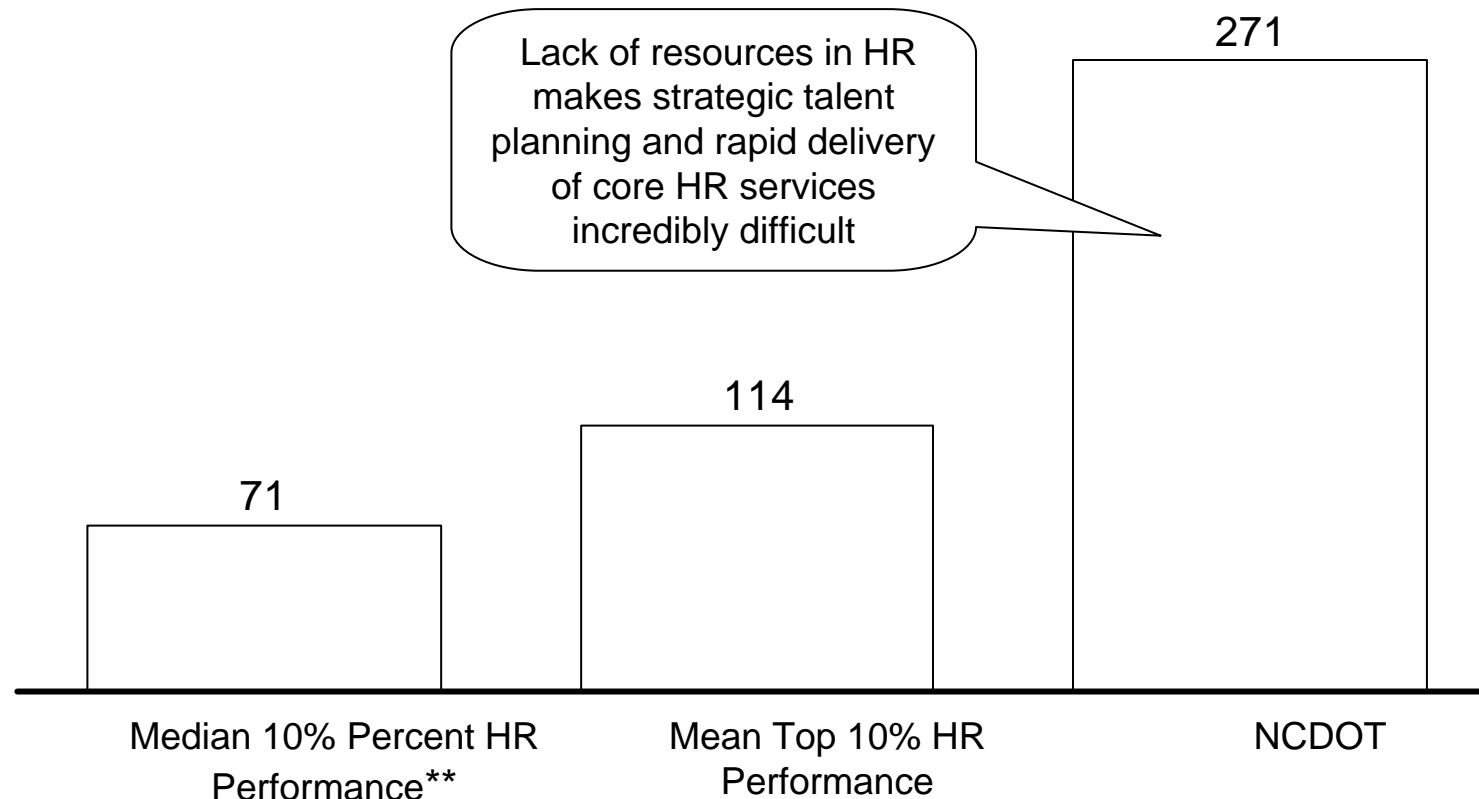
Process design ownership	<ul style="list-style-type: none"> • Stephanie King • HR representative • OSP representative 	<ul style="list-style-type: none"> • TBD • HR representative • OSP representative 	<ul style="list-style-type: none"> • Teresa Pergerson • Patricia Broadhurst • Lynn Summers 	<ul style="list-style-type: none"> • Anthony Roper • HR representative • OSP representative
Objective	To create an office and process to develop annual talent strategy	To create managerial, functional, and technical career tracks	To develop a rigorous and motivating performance review	To create a process to fill critical roles with exceptional talent
Deliverables	<ul style="list-style-type: none"> • New office org chart, role descriptions, and funding requirements • Talent strategy planning inputs, analysis, and outputs 	<ul style="list-style-type: none"> • Definition of org role needs in each track • Definition of skill requirements by role • Career track map • Development map 	<ul style="list-style-type: none"> • Forms for goal setting, evaluation, and consequence mgt • Training program designs • Implementation plans 	<ul style="list-style-type: none"> • Process input templates • Meeting agendas • Leadership planning principles • Process output templates

TODAY'S DISCUSSION

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CURRENTLY NCDOT HR DEPARTMENT OPERATES WITH FAR FEWER PROFESSIONALS THAN TOP PERFORMING HR FUNCTIONS..

Number of employees per HR professional*



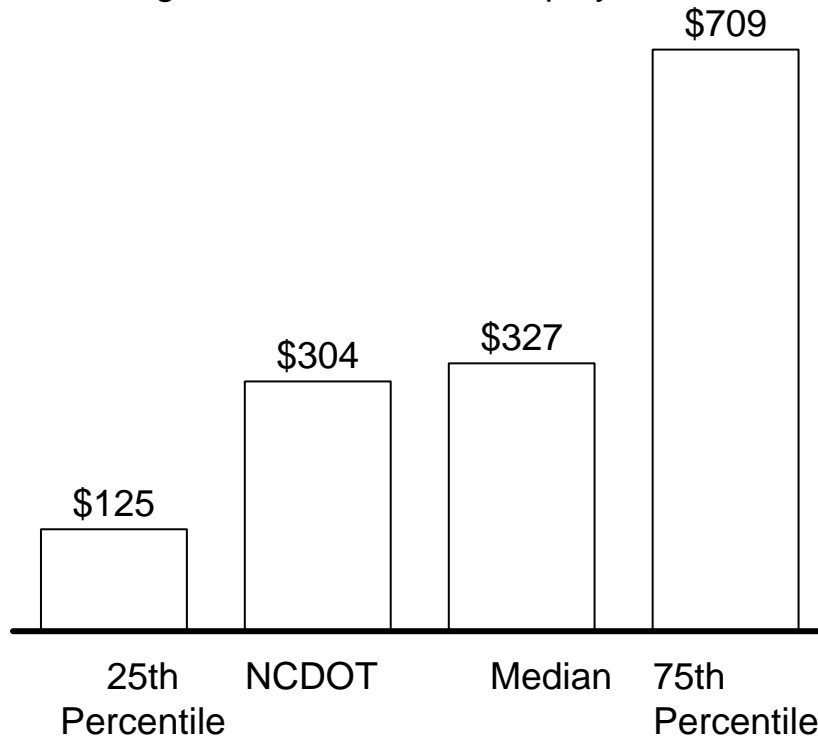
*HR professionals exclude noncore functions including executive assistants, facilities management, and janitorial / food services. NCDOT number is based on 54 HR professional positions and 14,616 total head count as of 6/30/2006.

** Segmented using an index that measures the extent to which a company's HR system is consistent with principles of high performance HR strategy (based on a 2000 survey of 429 firms and research conducted by Dr. Brian Becker, State University of New York at Buffalo)

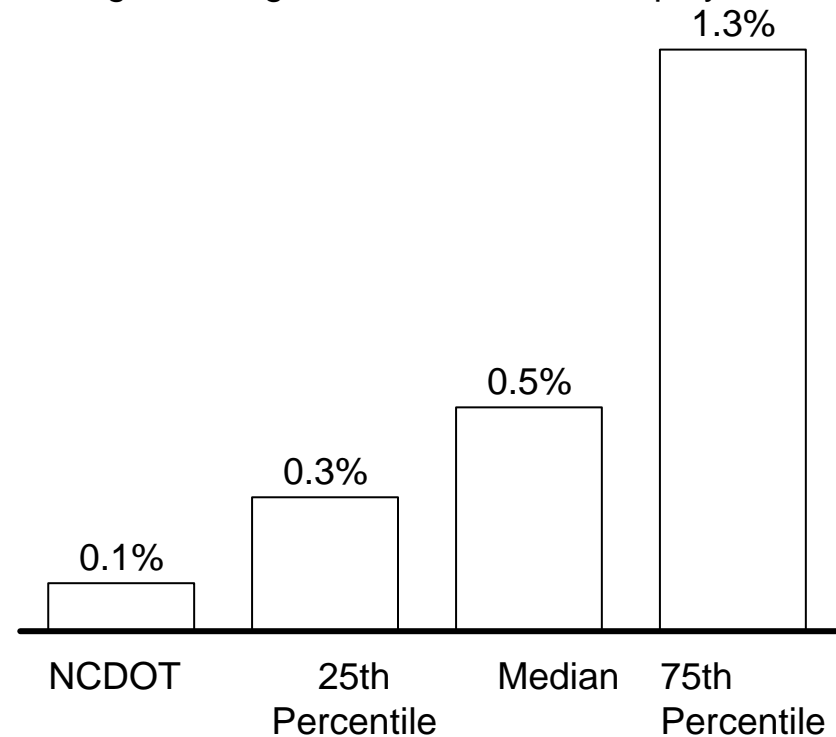
Source: Talent Team Analysis

...AS WELL AS A MUCH SMALLER BUDGET FOR THE RELATIVE MAGNITUDE OF ITS MISSION

Per Capita Budgeted HR Expenditures for Organizations > 2,500 Employees



HR Budget as a Percentage of Total Operating Budget for Organizations > 2,500 Employees

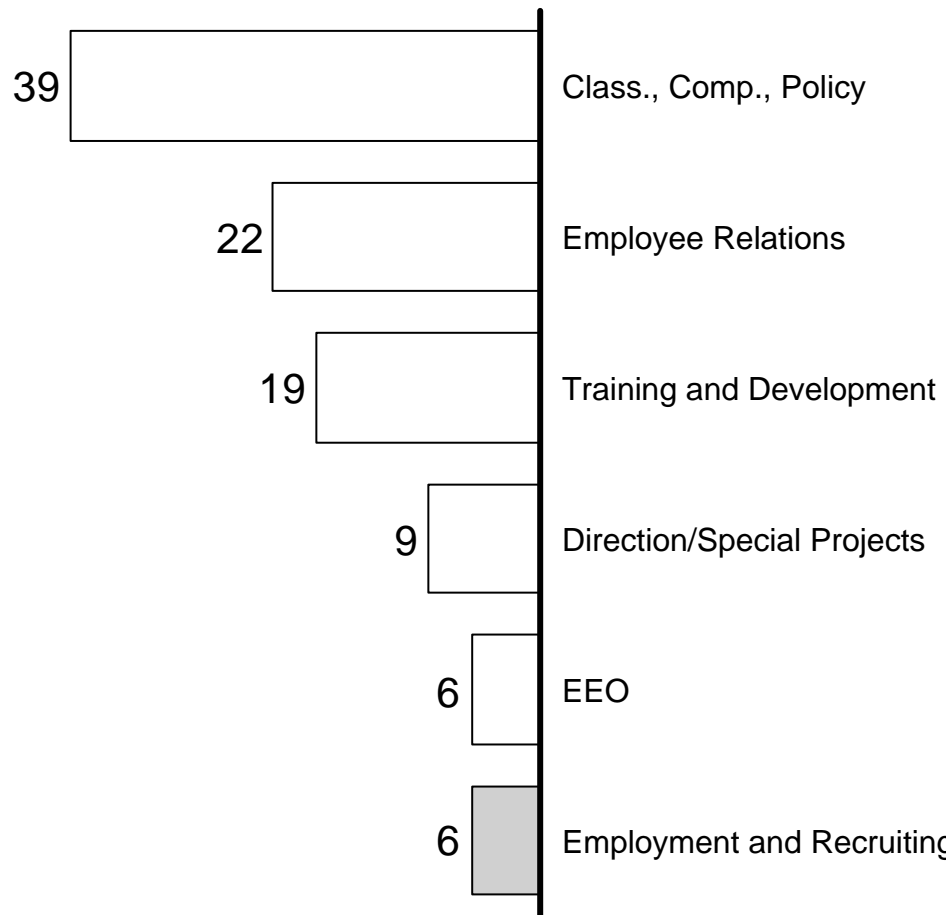


NCDOT is under-allocating funding to the HR department compared to best practice. In order to build an effective and efficient talent program, HR budgets may need to be increased

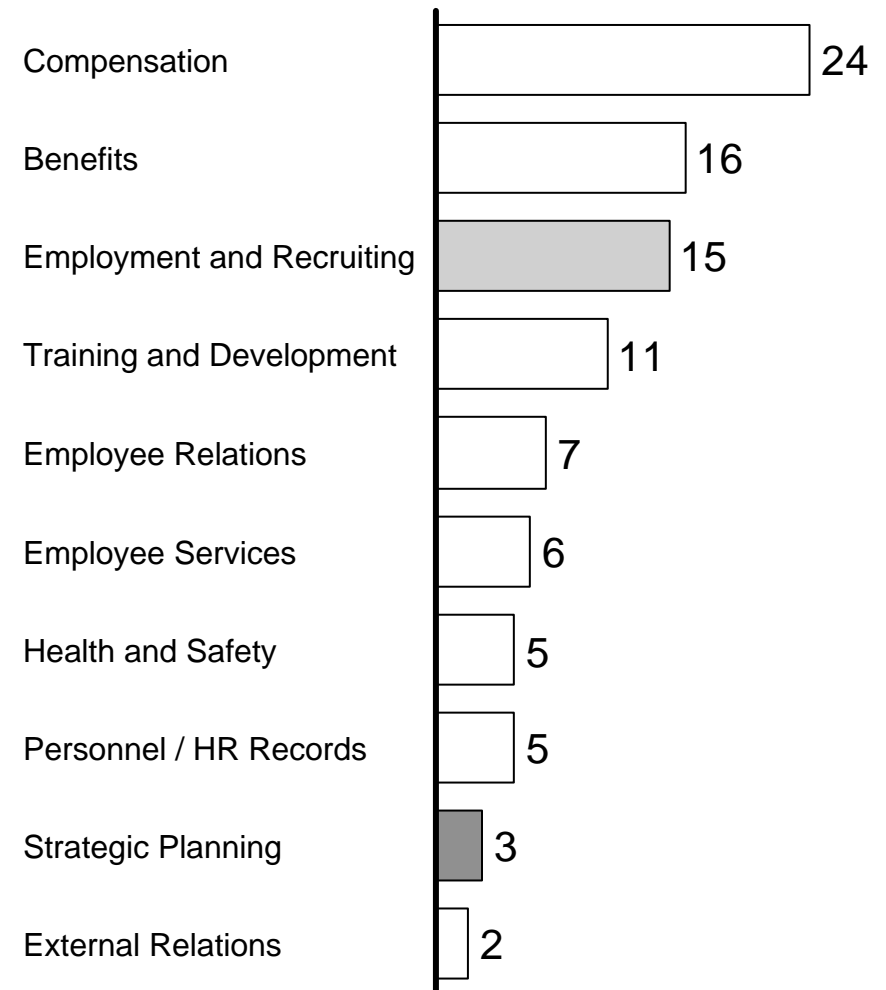
Source: Society for Human Resource Management 2005-2006, "HR Departments Benchmarks and Analysis 2005-2006."
NCDOT is estimated based on 2008 HR budget of \$4,252,657 and approximately \$4 billion NCDOT total budget

ALLOCATION OF THESE LIMITED RESOURCES IS ALSO UNDER- PRIORITIZING RECRUITMENT AND STRATEGIC PLANNING

NCDOT percentage of HR positions allocated to core HR functions*



Percentage of average budget allocated to core HR functions



* Since 94% of NCDOT budget is allocated to personnel expenses, priorities are best judged by percentage of employees

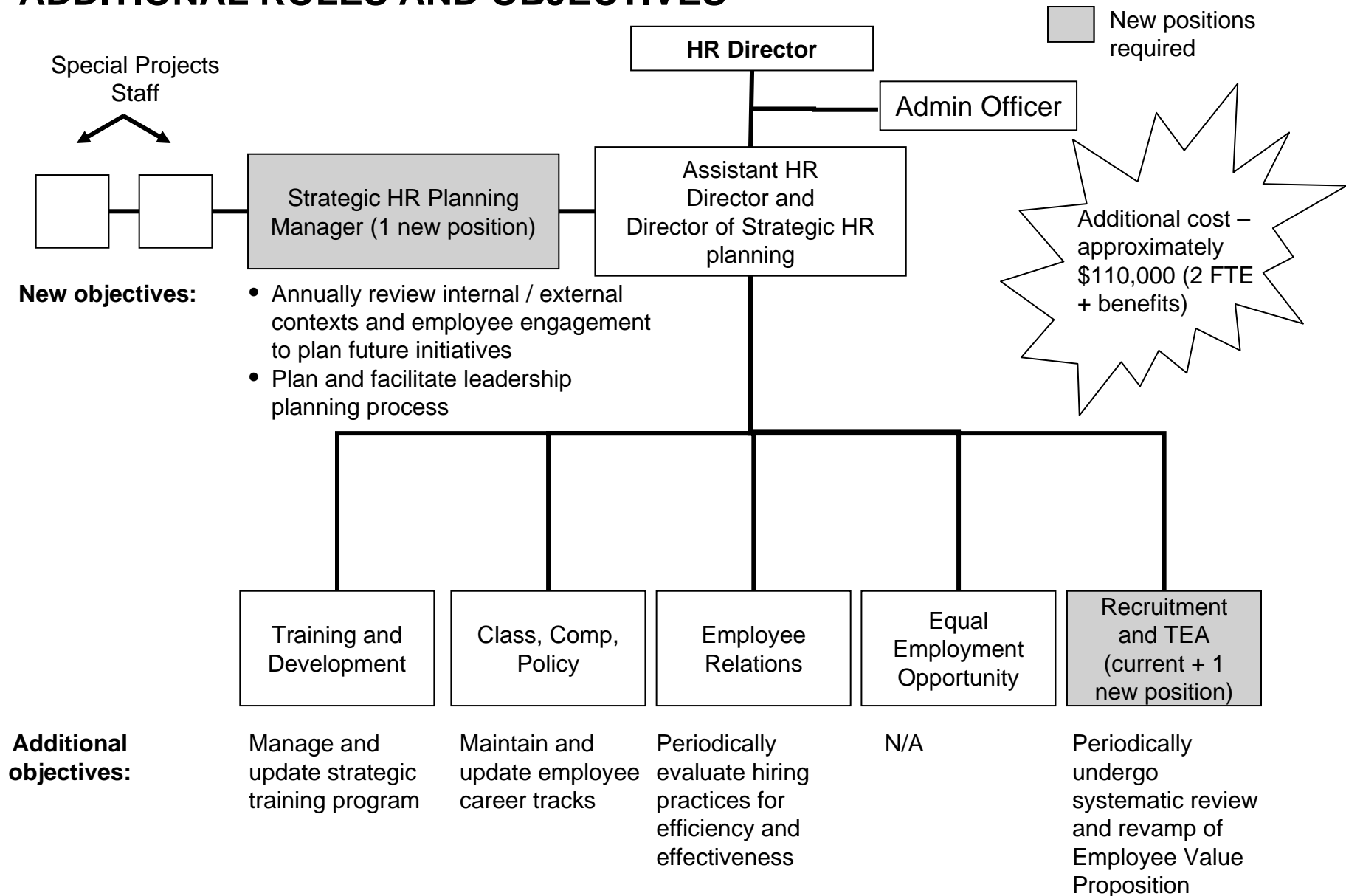
** Society for Human Resource Management 2005-2006, "HR Departments Benchmarks and Analysis 2005-2006"

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A MORE STRATEGIC HR FUNCTION WILL HAVE ADDITIONAL ROLES AND OBJECTIVES

FOR DISCUSSION



NCDOT INVOLVEMENT OF INTERNAL AND EXTERNAL STATKEHOLDERS IN TRANSFORMATION

	Communication/Forum	Timing
All-employee communication	1. Introduction of Transformation Management Team	June 2007
	2. Overview of Transformation process	June 2007
	3. "In the Loop" employee update	August 2007
	4. "In the Loop" employee update	Sept 2007
	5. Bi-weekly employee communications with payroll	Bi-weekly 2007
Small group workshops and focus groups	1. Email to all unit heads soliciting input on opportunities for improvement	May 22, 2007
	2. 8 focus groups with employees at multiple levels, in multiple departments and in multiple geographies for input on talent management improvement	June 14, 2007
	3. Division engineer discussions	June 2007
	4. Operations staff meeting discussions	June/July 2007
	5. Executive Committee vision and goals workshop	June/July 2007
	5. Executive Committee talent management workshop	July 12, 2007
	6. Executive Committee performance metrics workshop	July 17, 2007
	7. Executive Committee strategic planning workshop	July 24, 2007
	8. Prioritization summit	July 31, 2007
External presentations	9. Executive Committee communications workshop	Sept 10, 2007
	1. Small group board member discussions- talent management	Oct 9, 2007
	2. Small group board member discussions- strategic planning process	July 2007
	3. Small group board member discussions- overall update and prioritization approach	August 2007

List of communications is non-exhaustive